United Nations

United Nations Joint Staff Pension Fund

Report of the United Nations Joint Staff Pension Board

General Assembly
Official Records • Fifty-first Session
Supplement No. 9 (A/51/9)

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CONTENTS

		Paragraphs	Page
ABBREVIATIONS			vii
I.	INTRODUCTION	1 - 11	1
II.	SUMMARY OF THE OPERATIONS OF THE FUND FOR THE YEAR ENDED 31 DECEMBER 1995	12 - 14	3
III.	ACTUARIAL MATTERS	15 - 68	4
	A. Actuarial valuation of the Fund as at 31 December 1995	15 - 51	4
	B. Membership of the Committee of Actuaries	52 - 54	15
	C. Interest rate applicable to lump-sum commutations of periodic benefits	55 - 63	15
	D. Increase in maximum number of years of creditable contributory service: consequential amendments to the Regulations of the Fund	64 - 68	17
IV.	INVESTMENTS OF THE FUND	69 - 101	19
	A. Management of the investments	69 - 100	19
	B. Membership of the Investments Committee	101	25
V.	FINANCIAL STATEMENTS OF THE FUND AND REPORT OF THE BOARD OF AUDITORS	102 - 122	26
	A. Financial statements and audit	102 - 107	26
	B. Procurement arrangements for UNJSPF	108 - 112	27
	C. Auditing arrangements for UNJSPF	113 - 117	28
	D. Monitoring and control procedures for payments, including surviving spouses' benefits	118 - 122	29
VI.	COMPREHENSIVE REVIEWS OF THE PENSIONABLE REMUNERATION AND CONSEQUENT PENSIONS OF STAFF IN THE PROFESSIONAL AND HIGHER CATEGORIES AND IN THE GENERAL SERVICE AND RELATED CATEGORIES	123 - 160	31
	A. Introduction	123 - 126	31

CONTENTS (continued)

		Paragraphs	Page
B.	Methodology for determining the pensionable remuneration of staff in the Professional and higher categories	127 - 136	32
C.	Methodology for determining pensionable remuneration of staff in the General Service and related categories	137 - 143	34
D.	Development of common scale of staff assessment	144 - 160	35
VII.	PENSION ADJUSTMENT SYSTEM	161 - 227	39
A.	Introduction	161 - 162	39
B.	Monitoring of the costs of recent modifications of the two-track feature of the pension adjustment system	163 - 168	39
C.	Review of the special index for pensioners	169 - 178	41
D.	Variations in pensions according to dates of separation: local currency track	179 - 184	42
E.	Determination of local currency track pension amounts in countries where significant changes had been introduced in the relationship between the local currency and the United States dollar, following long periods of steep depreciation of the local currency and high inflation rates	185 - 220	44
F.	Possible change in the method for determining cost-of-living adjustments of pensions in award	221 - 227	54
VIII.	PROGRESS REPORT ON ACTIVITIES RELATED TO RESOLVING PROBLEMS CONCERNING THE IMPLEMENTATION OF THE TRANSFER AGREEMENTS BETWEEN THE FUND AND THE FORMER UNION OF SOVIET SOCIALIST REPUBLICS, UKRAINIAN SOVIET SOCIALIST REPUBLIC AND BYELORUSSIAN SOVIET SOCIALIST REPUBLIC	228 - 246	56
IX.	OTHER MATTERS	247 - 341	60
A.	Procedure for determining final average remuneration	247 - 251	60
B.	Suspension of benefits in cases of re-employment in a member organization of the Fund	252 - 261	61
C.	Entitlement to survivor's benefits for spouses and former spouses	262 - 283	63
D.	Possible withdrawal of ICITO/GATT from membership in the Fund	284 - 300	69

CONTENTS (continued)

	Paragraphs	Page
E. Provisional applications for admission to membership in the Fund of the International Tribunal for the Law of the Sea and the International Seabed Authority	301 - 305	73
F. Administrative expenses	306 - 337	74
G. Emergency Fund	338 - 341	79

Annexes

I. STATISTICS ON THE OPERATIONS OF THE FUND FOR THE YEAR ENDED 31 DECEMBER 1995		82
Table 1. Number of participants		82
Table 2. Benefits awarded to participants or their beneficiaries		83
Table 3. Analysis of periodic benefits		84
II. AUDIT OPINION, FINANCIAL STATEMENTS AND SCHEDULES FOR THE YEAR ENDED 31 DECEMBER 1995		85
A. Audit opinion		85
B. Note on the financial statements of the Fund for the year ended 31 December 1995		86
Statement I. Income and expenditure		88
Statement II. Assets, liabilities and principal of the Fund		90
Statement III. Cash flow		91
Schedule 1. Administrative expenses		92
Schedule 2. Summary statement of investments		93
Schedule 3. Comparison of cost value and market value of investments		94
Schedule 4. Summary statement of accounts receivable from investments		95
Schedule 5. Summary statement of accrued income from investments		96
Schedule 6. Summary of foreign tax accounts receivable		97
III. REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE UNITED NATIONS JOINT STAFF PENSION FUND FOR THE YEAR ENDED 31 DECEMBER 1995		98

CONTENTS (continued)

		Page
IV.	STATEMENT OF ACTUARIAL SUFFICIENCY AS AT 31 DECEMBER 1995 OF THE FUND TO MEET THE LIABILITIES UNDER ARTICLE 26 OF THE REGULATIONS .	108
V.	STATEMENT OF ACTUARIAL POSITION OF THE FUND AS AT 31 DECEMBER 1995	109
VI.	PROPOSED AGREEMENT BETWEEN THE GOVERNMENT OF THE RUSSIAN FEDERATION AND THE UNITED NATIONS JOINT STAFF PENSION BOARD	110
VII.	EXCHANGE OF CORRESPONDENCE BETWEEN THE PERMANENT REPRESENTATIVE AND THE PERMANENT MISSION OF UKRAINE TO THE UNITED NATIONS AND THE SECRETARY OF THE UNITED NATIONS JOINT STAFF PENSION BOARD	115
VIII.	ADMINISTRATIVE EXPENSES	120
	Table 1. Revised estimates for the biennium 1996-1997	120
	Table 2. Summary by object of expenditure	123
IX.	MEMBER ORGANIZATIONS OF THE FUND	124
X.	ATTENDANCE AT THE FORTY-SEVENTH SESSION OF THE BOARD	125
XI.	MEMBERSHIP OF THE STANDING COMMITTEE	129
XII.	MEMBERSHIP OF THE COMMITTEE OF ACTUARIES	130
XIII.	MEMBERSHIP OF THE INVESTMENTS COMMITTEE	131
XIV.	RECOMMENDATIONS TO THE GENERAL ASSEMBLY FOR AMENDMENT OF THE REGULATIONS OF THE UNITED NATIONS JOINT STAFF PENSION FUND	132
XV.	RECOMMENDATIONS TO THE GENERAL ASSEMBLY FOR CHANGES IN THE PENSION ADJUSTMENT SYSTEM	133
XVI.	DRAFT RESOLUTION PROPOSED FOR ADOPTION BY THE GENERAL ASSEMBLY ...	136

ABBREVIATIONS

ACABQ	Advisory Committee on Administrative and Budgetary Questions
ACC	Advisory Committee on Coordination
ADB	Asian Development Bank
CCAQ	Consultative Committee on Administrative Questions
CCISUA	Coordinating Committee for Independent Staff Unions and Associations of the United Nations System
EBRD	European Bank for Reconstruction and Development
EPPO	European and Mediterranean Plant Protection Organization
FAFICS	Federation of Associations of Former International Civil Servants
FAO	Food and Agriculture Organization of the United Nations
FICSA	Federation of International Civil Servants' Associations
IAEA	International Atomic Energy Agency
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
ICCROM	International Centre for the Study of the Preservation and the Restoration of Cultural Property
ICGEB	International Centre for Genetic Engineering and Biotechnology
ICITO/GATT	Interim Commission for the International Trade Organization/ General Agreement on Tariffs and Trade
ICSC	International Civil Service Commission
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IMO	International Maritime Organization
ITU	International Telecommunication Union
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
UNJSPB	United Nations Joint Staff Pension Board
UNJSPF	United Nations Joint Staff Pension Fund
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO (Tourism)	World Tourism Organization
WTO (Trade)	World Trade Organization

I. INTRODUCTION

1. The United Nations Joint Staff Pension Fund was established in 1949, by a resolution of the General Assembly, to provide retirement, death, disability and related benefits for staff upon cessation of their services with the United Nations, under Regulations that, since then, have been amended at various times.

2. The Fund is administered through the United Nations Joint Staff Pension Board, which consists of 33 members, representing the 18 member organizations that are listed in annex IX. One third of the Board members are chosen by the General Assembly and the corresponding governing bodies of the other member organizations, one third by the executive heads and one third by the participants. The Board reports to the General Assembly on the operations of the Fund and on the investment of its assets. When necessary, it recommends amendments to the Regulations which govern, inter alia, the rates of contribution by the participants (currently 7.9 per cent of their pensionable remuneration) and by the organizations (currently 15.8 per cent), eligibility for participation and the benefits to which participants and their dependants may become entitled. Expenses incurred by the Board in the administration of the Fund - principally the cost of its central secretariat at United Nations Headquarters in New York and the expenses of managing its investments - are met by the Fund.

3. The present report is submitted by the Board following its forty-seventh session, held from 8 to 19 July 1996 at the International Training Centre of the International Labour Organization in Turin, Italy. The members, alternate members and representatives accredited to the session of the Board, and those who actually attended, are listed in annex X.

4. The major items dealt with by the Board were: (a) actuarial matters, including in particular the twenty-third actuarial valuation of the Fund as at 31 December 1995; (b) the management of the investments of the Fund, including reports by the representative of the Secretary-General for the investments of the Fund on the investment strategy and performance, on the experience with the new custodial arrangements for the Fund's investments which were implemented in 1994, on the review of the arrangements for the provisions of institutional investment advice, which the General Assembly, in resolution 49/224, had requested the Secretary-General to undertake, and on the membership of the Investments Committee; (c) the comprehensive reviews of the pensionable remuneration and consequent pensions of staff in the Professional and higher categories, as well as the review of the special index for pensioners, which the General Assembly had requested ICSC to undertake, in close cooperation with the Board; (d) reviews of various aspects of the pension adjustment system; (e) a proposed agreement between the Fund and the Government of the Russian Federation concerning the pension-related claims of former Fund participants resident in the former USSR; and (f) the provisions governing the suspension of Fund benefits in cases of re-employment of retirees in a member organization of the Fund, in response to the request made by the General Assembly in decision 50/485 of 7 June 1996.

5. Under actuarial matters, the Board also reviewed, inter alia, (a) the interest rates used to determine lump-sum commutations; (b) amendments to article 28 of the Regulations as a consequence of the changes made, effective 1 July 1995, in the provisions governing the maximum number of years of creditable contributory service in the Fund; and (c) the membership of the Committee of Actuaries.

6. The Board examined and approved the financial statements and schedules for the year ended 31 December 1995, and considered the report of the Board of Auditors on the accounts and operations of the Fund. It also reviewed matters related to previous observations and recommendations made by the auditors in respect of the procurement and auditing arrangements for the Fund, and the monitoring and control procedures for benefit payments.

7. In respect of administrative expenses, the Board considered several matters related to the Fund's budget for the biennium 1996-1997 which had been remanded to it by the General Assembly on the recommendation of the Advisory Committee on Administrative and Budgetary Questions, as well as additional requests for supplementary resources. The Board also reviewed the implications of the possible withdrawal of ICITO/GATT from membership in the Fund; provisional applications for membership from the International Seabed Authority and the International Tribunal for the Law of the Sea; and a number of issues related to entitlements to survivors' benefits for spouses and former spouses.

8. The membership of the Standing Committee, which acts on behalf of the Board when the latter is not in session, is given in annex XI.

9. The membership of the Committee of Actuaries, established under article 9 of the Regulations, is given in annex XII.

10. The membership of the Investments Committee, established under article 20 of the Regulations, is given in annex XIII.

11. Section II contains a summary of the operations of the Fund during the year ended 31 December 1995. Sections III to IX contain accounts of matters on which action is required by the General Assembly, as well as matters on which the Board is obliged to report to the Assembly. A draft resolution for the consideration of the General Assembly is contained in annex XVI.

II. SUMMARY OF THE OPERATIONS OF THE FUND FOR THE YEAR ENDED 31 DECEMBER 1995

12. During the year, the number of participants in the Fund increased from 63,813 to 68,708, or by 7.7 per cent; the number of periodic benefits in award increased from 37,156 to 38,914, or by 4.7 per cent. On 31 December 1995, the breakdown of the periodic benefits in award was as follows: 12,792 retirement benefits, 7,291 early retirement benefits, 6,033 deferred retirement benefits, 5,547 widows' and widowers' benefits, 6,483 children's benefits, 717 disability benefits and 51 secondary dependants' benefits. In the course of the year, 4,079 lump-sum withdrawal and other settlements were paid. A breakdown by member organization of participants and of benefits awarded will be found in annex I.

13. During the same one-year period, the principal of the Fund increased from $11,900,778,451 to $12,600,908,111, or by 5.9 per cent (see annex II, statement II).

14. The investment income of the Fund during the year amounted to $725,042,195, comprising $597,476,794 in interest and dividends and $127,565,401 in net profit on sales of investments. After deduction of investment management costs amounting to $10,624,818, net investment income was $714,417,377. A summary of the investments as at 31 December 1995, and a comparison of their cost and market values, will be found in annex II, schedules 2 and 3.

III. ACTUARIAL MATTERS

A. Actuarial valuation of the Fund as at 31 December 1995

Introduction

15. Article 12 (a) of the Fund's Regulations provides that "the Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary". 1/ The primary purpose of the actuarial valuation is to determine whether the present and estimated future assets of the Fund will be sufficient to meet its liabilities. The practice of the Board has been to carry out a valuation every two years.

16. The Consulting Actuary submitted to the Board the report on the twenty-third actuarial valuation of the Fund as at 31 December 1995; the previous valuation had been as at 31 December 1993 and its results had been reported to the General Assembly at its forty-ninth session in 1994. 2/ The Board also had before it the observations of the Committee of Actuaries, which had examined the valuation report prior to its submission to the Board.

Actuarial valuation bases

17. The valuation had been prepared on the basis of the actuarial assumptions recommended by the Committee of Actuaries and approved by the Standing Committee in 1995, and in accordance with the Regulations and Administrative Rules of the Fund in effect on the valuation date. As in the past, the valuation reflected a fully dynamic basis, which assumes inflation to continue indefinitely in the future and with certain assumptions as to the growth in future years in the number of participants.

18. As was done in the last four valuations, the actuarial value of the assets as at 31 December 1995 was determined on the basis of a five-year moving market average method, subject to a limiting range of 15 per cent below and above the market value of the assets as at 31 December 1995. However, in determining future developments, changes were made in the economic assumptions regarding: (a) the rate of increase in pensionable remuneration (in addition to increases arising from promotion and step increments); (b) the interest rate (or the expected rate of return on investments); and (c) the rate of cost-of-living increases of pensions after award. In the four previous valuations, the economic assumptions were as summarized in the table below:

Economic assumptions (previous valuation)	I	II	III
		(per cent)	
Increases in pensionable remuneration (in addition to static increases)	6.5	6.5	6.5
Nominal rate of interest (investment return)	8.0	9.0	10.0
Increases in pensions after award	6.0	6.0	6.0
Real rate of interest (investment return after inflation)	2.0	3.0	4.0
Usual designation	6.5/8/6	6.5/9/6	6.5/10/6

19. In 1995 the Consulting Actuary and the Committee of Actuaries examined the economic and demographic assumptions, as well as various aspects of the valuation methodology. In particular, they reviewed (a) the actuarial experience of the Fund over the 10 years preceding 31 December 1994; (b) the methodology for determining the new entrant distribution; (c) the incidence of early retirement; (d) the continued appropriateness of the assumption of a 6 per cent annual rate of inflation and the corresponding changes that might be made in the other interrelated assumptions as to future increases in pensionable remuneration and in the nominal investment return; (e) the need to include a separate assumption as to the cost of the two-track pension adjustment system; and (f) the need to assess the sensitivity of the valuation results to changes in the assumptions as to the future growth in the participant population.

20. On the basis of that review, the Committee of Actuaries recommended, and the Standing Committee accepted, a number of changes to the economic and demographic assumptions to be used in the valuation as at 31 December 1995. These changes were intended to provide a better and updated reflection of trends in areas which had an important impact on the future financial situation of the Fund. The most important and significant changes recommended were (a) an increase in the assumed real rate of return to be used in the Regular Valuation, from 3 to 3.5 per cent, having regard to the annualized actual real rates of investment return over the last 30 years and particularly in recent years; (b) a reduction in the assumed inflation rate from 6 to 5 per cent, coupled with reductions in the assumed increases in pensionable remuneration (in addition to static increases) from 6.5 to 5.5 per cent, and in the nominal investment return from 9 to 8.5 per cent; (c) the introduction of an explicit cost assumption for the two-track system of 1.9 per cent of pensionable remuneration, based on an examination of the long-term theoretical and actual emerging costs; (d) the use of a new methodology for determining the new entrant distribution, which would involve averaging new entrant data over the five years preceding the actuarial valuation, rather than only the data for the valuation year, so as to reduce volatility; and (e) changes in the rates previously used for early retirement to bring them into line with the average experience over the last six years. The Committee of Actuaries concluded that the experience indicated that the other demographic assumptions used in the previous valuation were satisfactory.

21. The Committee of Actuaries also recommended that valuations should be made under a number of sets of economic assumptions, including those used in the 1993 valuation designated as the Regular Valuation, as well as several assumptions as to the future growth of participants.

22. Consequently, the valuation as at 31 December 1995 was prepared on several combinations of economic and participant-growth assumptions, as shown in tabular form below:

A. Economic assumptions	I a/	II	III
		(per cent)	
Increases in pensionable remuneration (in addition to static increases)	6.5	5.5	5.5
Nominal rate of interest (investment return)	9.0	8.5	9.0
Price increases (reflected in increases of pensions to beneficiaries)	6.0	5.0	5.0
Real rate of interest (investment return after inflation)	3.0	3.5	4.0
Usual designation	6.5/9/6	5.5/8.5/5	5.5/9/5
Cost of two-track adjustment system (percentage of pensionable remuneration)	Not included	1.9	1.9

B. Participant growth assumptions	I b/	II	III
		(per cent)	
For each of the first 5 years:			
Professional staff	0.5	0.5	0
General Service staff	1.0	1.0	0
For each of the next 13 years:			
Professional staff	0.5	0	0
General Service staff	1.0	0	0
After 18 years:			
Professional and General Service Staff	0	0	0

a/ The assumptions used in the Regular Valuation as of 31 December 1993.

b/ These assumptions are consistent with those used in the Regular Valuation as of 31 December 1993.

23. The specific combinations included in the actuarial valuations as of 31 December 1995 were as follows:

- A.II with B.II, i.e., "five-year participant growth assumption" with 3.5 per cent real rate of return (1995 Regular Valuation);
- A.I with B.I, i.e., "18-year participant growth assumption" with 3 per cent real rate of return (1993 Regular Valuation);
- A.III with B.II, i.e., "five-year participant growth assumption" with 4.0 per cent real rate of return;
- A.II with B.III, i.e., "zero participant growth assumption" with 3.5 per cent real rate of return.

Regular Valuation

24. The Committee of Actuaries recommended and the Board approved that the 5.5/8.5/5 set of economic assumptions (i.e., 5.5 per cent annual increase in pensionable remuneration, 8.5 per cent nominal interest rate, and 5 per cent annual inflation rate with respect to increases in pensions after award) and the "five-year participant growth assumptions" should serve as the basis for the Regular Valuation.

Analysis of valuation results

25. The table below provides the results of the twenty-third actuarial valuation and compares them with the results of the Regular Valuation as at 31 December 1993.

		Contribution rate required (as percentage of pensionable remuneration)		
Valuation date	Valuation basis	Total required	Fund rate	Excess over Fund rate (imbalance)
31 December 1995	5.5/8.5/5 with 5-year participant growth (Regular Valuation)	25.16	23.7	1.46
	5.5/9/5 with 5-year participant growth	23.06	23.7	(0.64)
	5.5/8.5/5 with zero participant growth	25.32	23.7	1.62
	6.5/9/6 with 18-year participant growth	25.57	23.7	1.87
31 December 1993	6.5/9/6 with 20-year participant growth (Regular Valuation)	25.19	23.7	1.49

26. As can be seen from the above table, the Regular Valuation as at 31 December 1995 showed a decrease of 0.03 per cent in the required contribution rate (from 25.19 per cent to 25.16 per cent). The elements contributing to the decrease in the imbalance rate were as follows:

	Elements	Increase (decrease) in imbalance (as percentage of pensionable remuneration)
(a)	Interest on prior imbalance	0.28
(b)	Investment experience	0.17
(c)	Net effect of changes in the value of United States dollar and pension adjustments	(0.32)
(d)	Effect of higher than expected number of new entrants	(0.04)
(e)	Effect of pensionable remuneration of future new entrants	0.40
(f)	Changes in actuarial methods and assumptions, including recognition of two-track adjustment system	(0.41)
(g)	Miscellaneous	(0.11)
(h)	Change in imbalance	(0.03)

Present value of accrued benefits

27. As in previous reports, the actuarial valuation contained another indicator of the funded position of the Fund - namely, a comparison of the present assets of the Fund with the value of the accrued benefits on the valuation date (i.e., the benefits for retired participants and beneficiaries and the benefits considered to have been earned by all present participants if their service were terminated on that date).

28. With respect to its liabilities on a "plan termination" basis, the Fund was in a strongly funded position if future adjustments of pensions were not taken into account. The funded ratios on that basis, which varied according to the rate of interest assumed, ranged from 132 to 137 per cent, with 132 per cent being applicable for the Regular Valuation. This meant that the Fund would have considerably more assets than needed to pay the pensions if no adjustments were made in pensions for changes in the cost of living. However, the funded position was considerably weaker when account was taken of the assumption that pensions in award would increase at the rate of 5 per cent per year and of the 1.9 per cent cost of the two-track system; the funded ratios, under this assumption, ranged from 80 to 86 per cent, with 81 per cent being applicable for the Regular Valuation. As shown in the table below, the funded ratios have generally improved since 1982, both with and without assuming future adjustments of pensions for inflation.

Funded ratios, 1982-1995

Valuation as of 31 December	If future pension payments are made:	
	Without pension adjustments	With pension adjustments
	(per cent)	(per cent)
1982	90	49
1984	100	56
1986	118	67
1988	123	70
1990	131	77
1993	136	81
1995	132	81

29. The Consulting Actuary observed that the slight decline in the "without pension adjustments" funded ratio was attributable to the change in the actuarial model which included the recognition of the cost of the two-track pension adjustment system, and to the use of the moving market average asset value which did not increase at the actuarially assumed rate. It was expected that the funded ratios would continue to improve in future years.

Results of valuation in dollar terms and actuarial statements

30. The General Assembly had requested the Board, in resolutions 47/203 of 22 December 1992 and 48/225 of 23 December 1993, to consider the form in which it presents the valuation results, taking into account, inter alia, the observations made by the Panel of External Auditors. The Auditors had requested the Board to consider including in its reports to the General Assembly the following additional disclosures and opinions as regards the valuation results: (a) presentation of the results in dollar terms; (b) presentation of a statement of sufficiency under article 26 of the Fund's Regulations; and (c) presentation of a statement by the Committee of Actuaries and the Consulting Actuary on the actuarial position of the Fund, to which the Board of Auditors may refer in its observations on the accounts of the Fund.

31. Commencing with the valuation as at 31 December 1993, the actuarial valuation reports have contained the results in dollar terms, both on the Regular Valuation basis and under the other sets of economic assumptions used; the two actuarial statements were also presented to the Board in the report of the Committee of Actuaries.

32. The table below summarizes the valuation results as at 31 December 1995, both as a percentage of pensionable remuneration and in dollar terms, under the four combinations of economic and participant growth assumptions:

Economic assumptions	VALUATION RESULTS SURPLUS (DEFICIT)	
	As percentage of pensionable remuneration	In dollar terms (millions)
5.5/8.5/5 with 5-year participant growth (Regular Valuation) a/	25.16	(1 688.7)
5.5/9/5 with 5-year participant growth a/	23.06	636.7
5.5/8.5/5 with zero participant growth a/	25.32	(1 820.6)
6.5/9/6 with 18-year participant growth b/	25.57	(2 478.6)

a/ Includes explicit recognition of cost of the two-track pension adjustment system at 1.9 per cent of pensionable remuneration.

b/ Regular valuation basis as at 31 December 1993.

33. The table below provides the projected liabilities and assets of the Fund in dollar terms, as reflected in the Regular Valuation results as at 31 December 1995 and 31 December 1993, respectively.

	(Millions of United States dollars)	
	31 December 1995	31 December 1993
Liabilities		
Present value of benefits:		
Payable to or on behalf of retired and deceased participants	8 860.1	7 554.30
Expected to become payable on behalf of active and inactive participants, including future new entrants	33 710.8	35 324.5
Total liabilities	42 570.9	42 878.8
Assets		
Actuarial asset value	13 691.2	11 740.3
Present value of future contributions	27 191.0	29 281.40
Total assets	40 882.2	41 021.7
Surplus (deficit)	(1 688.7)	(1 857.1)

34. Both the Consulting Actuary and the Committee of Actuaries again stressed that great care must be taken when considering the dollar amounts. The liabilities shown in the table above included those for individuals who have yet to join the Fund; similarly, the assets included the contributions for future new entrants. The imbalance did not indicate a shortfall in the Fund's ability to meet current obligations; rather it indicated the future effect of continuing the current contribution rate under various actuarial assumptions as to future economic and demographic developments. The valuation results were therefore

highly dependent upon the actuarial assumptions used. As indicated in the table in paragraph 32 above, a significant surplus, rather than an imbalance, was indicated on the 5.5/9/5 valuation basis, i.e., a real rate of return of 4 per cent. Both the Consulting Actuary and the Committee of Actuaries pointed out that the actuarial imbalance, when expressed in dollar terms, should only be considered in relation to the magnitude of the liabilities and not in absolute terms. The deficit of $1,688.7 million under the Regular Valuation as at 31 December 1995 represented only 4.0 per cent of the projected liabilities of the Fund. The deficit under the Regular Valuation as at 31 December 1993 had been $1,857.1 million, which had represented 4.3 per cent of the projected liabilities.

Hypothetical projection models

35. As in past valuations, hypothetical models of the estimated progress of the Fund over the next 30 years were also prepared on the basis of the economic assumptions in the Regular Valuation, using the five-year participant growth assumptions. The results were presented in both nominal and inflation-adjusted terms. These models showed that the Fund balance at the end of the 30-year period would still be increasing both in nominal and inflation-adjusted dollar terms. Additional models, in which the assumed real rate of return on investments ranged from 2 per cent to 5 per cent higher than the assumed 5 per cent rate of inflation, were also prepared. These models showed that the Fund balance continued to increase at the end of 30 years in nominal dollars in all cases, with the balances ranging from $43.5 billion to $164 billion.

Views of the Committee of Actuaries

36. In its report to the Board, the Committee of Actuaries stated that, in assessing the results of the valuation, it had specifically addressed the following indicators: (a) the relationship between the actuarial value of the assets used in the valuation and the market value of the assets as at 31 December 1995; (b) the actual average real rate of return on the investments of the Fund in recent years; (c) the trend in the funded position as reflected in the ratio of the actuarial value of present assets to the actuarial value of accrued benefits; (d) the trend in the growth of the assets of the Fund, when projected 30 years into the future in inflation-adjusted terms; and (e) the lower-than-expected pensionable remuneration of new entrants, which led to an actuarial loss for the Fund. The Committee's observations on each of these matters were as follows:

(a) The actuarial value of the assets used as the starting point in the valuation ($13,691.2 million) was $1,694.8 million, or 11 per cent, lower than the market value of the assets as at 31 December 1995 ($15,386.0 million); in each case the asset amount included net receivables. If the market value had been used, the required contribution rate would have been reduced by 1.47 per cent of pensionable remuneration, i.e., instead of an actuarial imbalance of 1.46 per cent of pensionable remuneration the result would have been a surplus of 0.01 per cent of pensionable remuneration;

(b) The average of the real rates of return of the investments over the last 10 years has been greater than the 3.5 per cent real rate of return assumption used in the regular valuation, increasing the average annual real rate of return over the last 36 to 3.7 per cent;

(c) The funded ratios presented in the valuation report indicated that the Fund was in a strong funded position with respect to the accrued benefit

entitlements as at 31 December 1995 under the Fund's Regulations (i.e., without taking into account future pension adjustments), with a funded ratio in excess of 132 per cent. The funded ratios were considerably lower when account was taken of the current system of pension adjustments; however, the trend since 1980 has been one of generally improving funded ratios;

(d) The actuarial projections presented in the valuation report indicated that, based on the assumptions adopted for the Regular Valuation, the Fund would continue to grow in real terms for over 30 years;

(e) The pensionable remuneration of new entrants joining the Fund was lower than expected, based on the valuation assumptions for the period since the prior valuation as at 31 December 1993. As was the case with the prior valuation, the lower-than-expected new General Service entrants' pensionable remuneration led to an actuarial loss that adversely affected the valuation results. The new entrant data over the last several years may not be reflective of the data that would be expected in the future, but, rather, may represent shorter-term trends.

37. The Committee also reviewed the demographic experience of the Fund over the inter-valuation period and noted with satisfaction that the rates experienced were generally in close agreement with the valuation assumptions.

38. On the basis of its evaluation of the relevant indicators, the Committee of Actuaries was of the opinion that:

> "there continues to be no need to take action to reduce the projected actuarial imbalance at this time. In particular, it sees no need to change the current contribution rate, pending further review on the occasion of the next valuation."

Statements on the valuation results

39. The statement of actuarial sufficiency prepared by the Consulting Actuary and approved by the Committee of Actuaries is reproduced in annex IV of this report. That statement indicated that

> "the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on our understanding of the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as of 31 December 1995, for deficiency payments under article 26 of the Regulations of the Fund."

40. The statement on the actuarial position of the Fund, adopted by the Committee of Actuaries, is reproduced in annex V of this report. In that statement, the Committee of Actuaries indicated that it had

> "reviewed the results of the actuarial valuation as of 31 December 1995, which was carried out by the Consulting Actuary. Based on the results contained in the valuation report, and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the Consulting Actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1997, and in the light of future developments."

41. The Committee of Actuaries indicated its intention to review next year certain aspects of the present valuation methodology. In particular, it would review aspects of the methodology used to derive the actuarial asset value, including whether the present 15 per cent corridor around the market value as of the valuation date might be reduced in order to bring the actuarial value of assets closer to the market value. The Committee would also consider whether alternative methods for determining actuarial asset values might be appropriate for future valuations.

42. The Committee also intended to review next year the experience of the Fund over the last several years as regards rates of separation from service (retirement, withdrawal, disability, death, etc.) and rates of mortality after retirement, as well as the data regarding new entrants' salaries in recent years to determine whether modification should be made to the methodologies pertaining to new entrants.

Discussion in the Board

43. The Board sought clarification from the Consulting Actuary and the Rapporteur of the Committee of Actuaries on various aspects of the valuation. Several members referred to the lower-than-expected new entrant salaries and the effect that this had had on both the prior valuation results and the results of the latest valuation. In response to these questions the Consulting Actuary indicated that he had prepared an analysis of new entrant data for the Committee of Actuaries, covering the experience since 31 December 1990; that analysis had been taken into account in the Committee's overall assessment of the financial condition of the Fund. It showed that the starting salaries of new entrants in the General Service category had been running much lower than the starting salaries expected under the valuation assumptions and that the starting salaries for new entrants in the Professional category had also been running lower than expected, but the differences were significantly less than for new General Service entrants. In the biennium since the last valuation was prepared, the new entrant starting salaries had led to an actuarial loss of 0.4 per cent of pensionable remuneration; of that loss, 0.3 per cent of pensionable remuneration was attributable to new entrants in United Nations peacekeeping and other related missions. The Consulting Actuary noted that, while the issue of the lower-than-expected new entrant starting salaries was of some concern, it was not necessary to take immediate steps to change the valuation assumptions.

44. Some speakers suggested that the reduction might, in part, also be attributed to recent changes in the methodology for determining General Service pensionable remuneration levels. It was recalled in this connection that a methodology to stabilize the new entrant distributions was introduced with the 31 December 1995 actuarial valuation. That change had corrected for approximately 0.6 per cent of pensionable remuneration out of the total actuarial loss of 1.30 per cent attributable to the experience over the last several years.

45. The Consulting Actuary stated that a further detailed analysis of new entrants' starting salaries would be prepared next year for the consideration of the Committee of Actuaries.

46. Several speakers sought clarification on the use of the five-year moving average market value for purposes of determining the value of assets to be used in the actuarial valuations. The Consulting Actuary noted that the five-year moving average method was designed to reduce the volatility in asset values and thereby lead to greater stability in the emerging required contribution rates

over time. Five years was the most commonly used period for averaging, although a three-year period was used by some funds. The Consulting Actuary noted further that the use of the five-year moving average market value resulted in the value of the assets for valuation purposes being some 11 per cent lower than the actual market value, thus providing a margin of safety should the market value decline.

47. The Rapporteur of the Committee of Actuaries noted that the Committee had looked at another method for valuing the assets, the discounted cash flow method, as part of its review of the results of the actuarial valuation. He indicated that it would be the Committee's intention to examine in more detail at its next session whether some change should be made to the asset valuation methodology.

48. The Consulting Actuary also responded to queries as to the impact of a decline in the number of active participants on the financial situation of the Fund. He noted that the Regular Valuation as at 31 December 1995 was based on relatively modest participant growth assumptions; in addition, a valuation with the same economic assumptions as in the Regular Valuation had been made using zero growth assumption for future participants. The latter valuation resulted in a required contribution rate of 25.32 per cent of pensionable remuneration, as compared with the rate of 25.16 per cent of pensionable remuneration under the modest growth assumptions used in the Regular Valuation. The Consulting Actuary indicated that it would be a relatively simple matter to include a section in future valuation reports on the sensitivity of the valuation results to declines in the active population of the Fund. It was agreed that such an analysis would be included in future valuation reports.

49. In response to requests for information on the basis for the use of a cost factor of 1.9 per cent of pensionable remuneration for the two-track pension adjustment system, the Consulting Actuary indicated that the cost factor had been determined from the results of two independent studies: (a) a theoretical analysis using an extensive series of computer models, developed to determine the cost; and (b) an analysis of the emerging cost based on actual data collected from the Fund secretariat. The resulting cost factor of 1.9 per cent of pensionable remuneration had been arrived at by the Board, in the light of the recommendations of the Consulting Actuary and Committee of Actuaries, as a blend of the theoretical and actual emerging costs.

50. The Board took note of the results of the actuarial valuation of the Fund as at 31 December 1995 and the comments and explanations of the Consulting Actuary and the Rapporteur of the Committee of Actuaries. It noted in particular the conclusion of the Committee of Actuaries that there was no need to increase the current contribution rate or to take other measures at this time to reduce the imbalance, pending a review of developments between now and the completion of the next valuation of the Fund as at 31 December 1997.

51. The Board expressed satisfaction with the valuation results, which it considered to be favourable. It commended the Consulting Actuary and the Committee of Actuaries for their work in updating the actuarial valuation model and interpreting the valuation results. Several members of the Board indicated that the Fund had reached actuarial stability, and that the actuarial results would justify consideration at the current session of some long overdue improvements in certain benefit provisions of the Fund. Some other members indicated that further improvements in the actuarial situation of the Fund might serve in the future as the basis for effecting reductions in the rate of contributions.

B. Membership of the Committee of Actuaries

52. The Committee of Actuaries consists of five members, one from each of the five geographical regions of the United Nations, appointed in accordance with article 9 of the Fund's Regulations by the Secretary-General, on the recommendation of the Board. The current membership of the Committee is set out in annex XII.

53. Under the arrangements adopted by the Board in 1986 to stagger the membership of the Committee, the terms of three of the members are scheduled to expire on 31 December 1996:

Mr. E. M. Chetyrkin	(Russian Federation) - Region III (Eastern European States)
Mr. H. Pérez Montas	(Dominican Republic) - Region IV (Latin American States)
Mr. K. Takeuchi	(Japan) - Region II (Asian States)

Mr. Takeuchi indicated that, largely for health reasons, he would not wish to be reappointed.

54. The Board decided to recommend, and the Secretary-General has approved, the reappointment of Mr. E. M. Chetyrkin and Mr. H. Pérez Montas, and the appointment of Mr. Tadashi Nakada (Japan), for three years, from 1 January 1997 to 31 December 1999. Mr. Nakada is Director of the Vital Statistics Division of the Ministry of Health and Welfare of Japan.

C. Interest rate applicable to lump-sum commutations of periodic benefits

Background information

55. Under article 28 (g) of the Regulations, subject to maximum and minimum amounts applicable in certain special cases, a participant may upon separation commute up to one third of his/her retirement or early retirement benefit into an actuarially equivalent lump sum payable to him/her immediately. The actuarial equivalent of a benefit is defined as the amount which, together with interest at the rate(s) established by the Board in accordance with the Regulations, would equal in current value the total of the periodic payments that the participant would receive during his/her expected lifetime.

56. In accordance with article 11 of the Regulations, the interest rate(s) and mortality tables used for calculating lump-sum commutations are adopted and revised, when appropriate, by the Board on the advice of the Committee of Actuaries. The interest rates and mortality tables used until 30 June 1995 and the periods of contributory service to which they related, were as follows:

Period of contributory service	Interest rate (per cent)	Mortality table
Prior to 1/1/79	3.25	1960 UNJSPF Unisex table
1/1/79-31/12/82	4.0	" " " "
1/1/83-31/12/84	4.5	" " " "
1/1/85-30/6/95	6.5	1984 UNJSPF Unisex table

57. In calculating lump-sum commutations, the Fund uses a "composite rate", based on averaging the interest rates and mortality rates which applied when the particular contributory service was performed; consequently, for participants with extensive prior service the interest rate actually applied has provided lump-sum amounts which were greater than those which would have resulted from application of a uniform rate of 6.5 or 6 per cent for all years of contributory service.

58. In 1994, the Board reported to the General Assembly 3/ on the interest (discount) rate applicable to lump-sum commutations of retirement benefits under article 28 (g) of the Fund's Regulations. At that time the Board decided, as part of a consensus agreement on a package of measures, (a) to retain the 6.5 per cent interest rate in effect since 1 January 1985 (but requested its Standing Committee to reconsider the matter at its 1995 meeting); and (b) to request the Committee of Actuaries to develop a revised unisex mortality table based on the current longevity assumptions utilized in the Fund's actuarial valuation.

59. At its July 1995 meeting, the Standing Committee decided to retain the 6.5 per cent interest rate applied in the calculation of lump-sum commutations with respect to contributory service performed since 1 January 1985. At the same time, the Standing Committee approved, effective as from 1 July 1995, a revised Unisex mortality table that had been developed by the Committee of Actuaries, with the assistance of the Consulting Actuary. The Standing Committee also agreed that the interest rate used for lump-sum commutations should continue to be monitored by the Board on a regular basis, commencing in 1996, based on updated economic data.

Discussion in the Board

60. At its recent session, the Board reviewed updated economic and other information similar to that provided on the occasion of previous reviews of the interest rate. At its June 1996 meeting, the Committee of Actuaries observed that the change in the real rate of return assumption for the regular valuation, from 3 to 3.5 per cent, had lowered the positive actuarial effect of the 6.5 per cent interest rate for commutation purposes, from 1.79 per cent to 1.23 per cent of pensionable remuneration. This consideration, together with the continuing actuarial imbalance of the Fund, led the Committee to recommend retention of the current 6.5 per cent interest rate.

61. The participants' representatives stressed that the 6.5 per cent interest rate constituted a substantial actuarial benefit for the Fund, the impact of which was borne solely by the participants. They questioned the validity and relevance of the economic data being provided and observed that, despite numerous economic changes and trends since 1 January 1985, every review of the

interest rate had resulted in retention of the 6.5 per cent rate. The participants' representatives therefore proposed the lowering of the interest rate to 5.5 per cent, i.e., a rate that they believed would still be actuarially beneficial to the Fund, while being more in line with economic developments relevant to commutations of full or partial annuities into lump-sum amounts.

62. The representatives of the governing bodies and executive heads on the Board, based on the information provided and the recommendation of the Committee of Actuaries, concluded that the Board should retain the current interest rate of 6.5 per cent, subject to review by the Board in 1998.

63. In the absence of any consensus in favour of changing the level of the interest rate, the Board decided to retain the current 6.5 per cent rate, and to review it in 1998, based on updated economic information to be provided by the Secretary and the results of the next actuarial valuation of the Fund. In addition, because of the actuarial implications and technical complications involved, the Board requested the Committee of Actuaries to re-examine this subject in all its aspects.

D. Increase in maximum number of years of creditable contributory service: consequential amendments to the Regulations of the Fund

64. As recommended by the Board in 1994, 4/ by resolution 49/224 of 23 December 1994 the General Assembly had agreed to amend articles 28 (b) and (c) of the Fund's Regulations so as to increase, with effect from 1 July 1995, the maximum number of years of creditable contributory service, as follows:

(a) Years of contributory service beyond 35 were made creditable, at an annual accumulation rate of 1 per cent per year;

(b) The maximum accumulation under the Fund's Regulations was increased to 70 per cent; and

(c) A progressive method of implementation was established to avoid any "notch" effect, as had been recommended by the Committee of Actuaries.

65. The "notch" effect had been described as a situation whereby separations immediately before and immediately after the effective date of 1 July 1995 would have resulted in significant differences in the pension entitlements of participants with otherwise identical service records. To avoid such an effect, the additional benefit accumulation beyond 35 years applied only to contributory service performed as from 1 July 1995. Thus, the maximum accumulation rate of 70 per cent could not be actually realized by any Fund participant before the year 2000.

66. When recommending the above changes, the Board had also requested the Secretary to prepare a study on whether and, if so, when, consequential changes should be made in the other relevant articles in the Fund's Regulations, namely paragraphs (d) and (g) of article 28, which established ceilings on the highest levels of pensions and on the amount of the lump-sum commutation, respectively. In both cases, the references to "35 years of contributory service" had been inserted so as to reflect what had been the maximum period creditable as contributory service in the Fund.

67. The Board considered it logical to recommend to the General Assembly amendments to paragraphs (d) and (g) of article 28 to conform with the revised maximum periods of creditable contributory service approved in 1994. At the same time, the Board recognized that the maximum accumulation rate of 70 per cent could not apply to the retirement or early retirement benefit of any participant before the year 2000, because of the method selected for phasing in the change in the maximum number of years of creditable service without any "notches".

68. Therefore, the Board decided to recommend that the General Assembly amend articles 28 (d) and 28 (g), as indicated in annex XIV, which would take into account the progressive increase in the maximum accumulation rate to 70 per cent.

IV. INVESTMENTS OF THE FUND

A. Management of the investments

69. The Board reviewed the investments of the Fund on the basis of a report and accompanying statistical data presented by the representative of the Secretary-General. The report described the economic and investment environment, the strategic and tactical methods followed in determining the investments, and provided information on the investment returns during the two-year period that ended 31 March 1996. The representative of the Secretary-General also presented two further reports: the report requested by the Board in 1994 on the experience with the new custodial arrangements for the assets of the Fund which had been implemented in 1994, and a report on the status of the review of the arrangements for the provision of institutional advice, which the General Assembly, in resolution 49/224, had requested the Secretary-General to undertake.

Investment performance

70. During the two-year period under review, the market value of the assets of the Fund increased by $3,005 million, from $12,534 million on 31 March 1994 to $15,539 million on 31 March 1996. The total investment returns for the years ended 31 March 1995 and 31 March 1996 were 8.7 per cent and 14.6 per cent, respectively. After adjustment by the United States consumer price index, the "real" rates of return for the two years in question were 5.6 per cent and 11.5 per cent, respectively. These represented the thirteenth and fourteenth consecutive years in which the Fund had achieved positive returns. The rates of return were calculated by an outside consultant, using a generally accepted method for such calculations that had been fully disclosed to the Board at its thirty-fourth session. That method includes actual income received from dividends and interest, as well as realized capital gains and losses, and takes into account changes in the market value of the investments and the timing of cash flows. The annual total returns over the past five years had been as follows:

Year ended 31 March	Percentage return
1996	14.6
1995	8.7
1994	9.7
1993	11.6
1992	7.6

71. The representative of the Secretary-General stressed that short-term investment results had little meaning for the Fund, in view of its long-term needs and investment objectives. Such results were largely influenced by the volatility of securities markets, which are difficult to predict and impossible to control. The management of the Fund was geared to maintaining a careful balance between risk and reward expectations over the medium to long term, rather than taking the risk inherent in seeking very high short-term returns.

72. The cumulative annualized total returns over the last 25 years had averaged 9.9 per cent. They were higher in more recent five-year periods: 10.4 per cent, 10.5 per cent, 12.1 per cent and 11.3 per cent during the last 5,

10, 15 and 20 years, respectively. Over the 36-year period for which data were available, the cumulative annualized total rate of return was 8.8 per cent, representing an annual "real" rate of return of 3.7 per cent.

73. The structure of the portfolio continued to be widely diversified to reduce risk and improve long-term returns. The major factor which determined the total return was asset allocation, i.e., the distribution of investment funds among equities, bonds, real estate-related investments and cash. The second important factor concerned the markets in which the funds were invested and their weightings in the portfolio; the third factor related to the selection of individual securities. Furthermore, the total return in terms of the base currency, the United States dollar, was affected by the movement of other currencies against the United States dollar.

74. The policy of broad diversification of investments by currency, types of asset classes and geographical areas continued to serve as the most reliable method of protection over long periods of time against the unpredictability and volatility of financial markets. Even within the same region, movements in markets and currencies tended not to be synchronized, and this had been especially true during the past two years. The Fund's global approach to investment emphasized diversification and risk reduction. Such an approach may not result in returns as high as those that a more aggressive investment policy might produce, but it protects the Fund from losses that would result from a more narrowly focused and speculative investment strategy. Over the long term, diversification tended to smooth and enhance the investment returns.

75. The Secretary-General, on the recommendation of the Investments Committee, establishes asset allocation ranges to be used as guidelines during the year. These guidelines are reviewed by the Investments Committee four times a year during its regular meetings and, if necessary, the Committee recommends adjustments based on market conditions. Therefore, the composition of the portfolio reflects the judgement of the Investments Committee, the staff and the advisers, based on the prevailing economic, market and currency trends. All investments, at the time of purchase or sale, were reviewed and analysed by the staff and were required to meet the four criteria of safety, profitability, liquidity and convertibility, which had been endorsed by the Board and confirmed by the General Assembly.

76. With respect to asset classes, equities as an asset category outperformed the other asset classes over the 36 years to 31 March 1996. However, in 14 of those 36 years, bonds outperformed equities - 6 times in the last decade. Real estate-related investments, included in the portfolio since 1972, had positive returns in all but 3 years; short-term investments and reserves posted double-digit returns in 9 of the 26 years in which performance results were calculated for this category. During periods of high interest rates, the Fund benefited from increased income generated by fixed-income securities; this income was a major component in the total return. Investments in high-yield securities benefited the Fund, as income earned from fixed income and real estate assets increased from $268 million in 1985 to $597 million in 1995. In a low interest rate environment, on the other hand, equities tended to outperform fixed income securities.

77. The equity position of the Fund increased to 63 per cent as of 31 March 1996, from 55 per cent as of 31 March 1994; during the same two-year interval the bond portion decreased to 26 per cent, from 33 per cent, and short-term investments and reserves decreased to 5.3 per cent, from 6 per cent. The long-term strategy to increase gradually the Fund's equity exposure not only

reflected the changed global investment environment, but also benefited the Fund since equities turned out to be the best-performing asset class and are likely to remain such at least for the near future.

78. For the year ended 31 March 1995, the equity markets had been lacklustre in general, affected by turmoil in the bond markets as a result of increases in short-term interest rates in the United States. Nonetheless, the equity portfolio of the Fund achieved respectable gains during that period, with United States equities outperforming non-United States equities. During the year ended 31 March 1996, many major equity markets in North America and Europe reached record levels, spurred by a decline in interest rates. United States equities achieved a return of 30.2 per cent for the year in question, the highest for that asset class since 1986.

79. During the biennium ended 31 March 1996, European equities outperformed the MSCI-Europe indices in both local currency and dollar terms, contributing each year over 20 per cent of the Fund's total return. Asian equities experienced bear markets in the two-year period. However, towards the end of the period, Asian markets rebounded sharply from their lows in 1995. The total return for the equity portfolio was 8.1 per cent for the year ended 31 March 1995 and 20.5 per cent for the year ended 31 March 1996.

80. In keeping with global bond market trends, the fixed income portion of the Fund performed well during the biennium ended 31 March 1996. For the year ended 31 March 1995, poor performance in United States bonds as a result of increases in short-term interest rates was offset by good performance in non-United States dollar bonds. For the year ended 31 March 1996, the situation was reversed, as lower interest rates in the United States caused United States dollar bonds to outperform non-United States dollar bonds. The total return for the bond portfolio was 12.9 per cent for the year ended 31 March 1995 and 5.1 per cent for the year ended 31 March 1996.

81. For the year ended 31 March 1996, the real estate portfolio was the second best performing asset class, with a return of 10.4 per cent. During the 25 years that real estate investments have been part of the portfolio, that sector had only three years of negative returns. Annualized returns for the 10-year and 15-year periods were 4.7 per cent and 7.2 per cent, respectively.

Comparisons of investment returns

82. The representative of the Secretary-General noted that comparisons of investment returns may not always be valid, as the methods used varied and several factors could distort the comparisons. The Fund was unique in terms of its investment policy, its liability profile and, until recently, its investment restrictions; as a consequence, comparing the Fund's investment performance with that of other pension funds could be misleading. In the absence of any similarly structured pension fund portfolio with which investment returns might be compared, the construction of a performance benchmark for the Fund has been under consideration by the Investments Committee for some time. However, comparisons continue to be made against various current market indices, by asset class.

83. Over the 18 years for which data were available, the Morgan Stanley Capital International World Index marginally outperformed the equity portion of the Fund's investments by less than half a percentage point, with a return of 14 per cent compared with 13.6 per cent for the Fund's total equity portfolio. This was mainly due to the fact that, until recently, the Fund could not invest

in major multinational companies that had business connections with South Africa. During the 18 years for which total returns for the Salomon Brothers World Bond Index were calculated, the Fund's bond portfolio outperformed that Index by almost one percentage point, 11.5 per cent compared with 10.6 per cent for the Index. The Fund's strong performance was attributable mainly to higher interest rates in the 1980s and the depreciation of the United States dollar against major currencies during most of the period.

Geographic and currency diversification

84. The Fund continued to be unique among major pension funds in its commitment to global investment. Funds were invested in 44 countries, including direct investments in 21 developing countries, and were invested in 30 different currencies. At 31 March 1996, $8,322 million, or 53.5 per cent, of the Fund's investments were in currencies other than the United States dollar.

85. As regards investments in developing countries, efforts were made continuously to identify appropriate opportunities, bearing in mind the guidelines and resolutions adopted by the General Assembly on this matter. At the end of the two-year period ended 31 March 1996, direct and indirect investments in developing countries amounted to $1,716 million at cost. Although this was a decrease of $30.6 million, or 2 per cent, this was largely due to the selling at a profit of the holdings of World Bank bond issues and of the bonds of other regional institutions, with the intention of reinvesting much of the proceeds in developing countries as opportunities arose. Despite the growth of capital markets in some developing countries, restrictions prevented the Fund from investing directly in a number of domestic financial markets. Through the Investment Management Service, the Secretary-General continued to maintain close contact with development banks; in addition, missions have been undertaken to developing countries in order to explore investment opportunities.

Custodial arrangements

86. As indicated in paragraph 69 above, at the request of the Board, the representative of the Secretary-General submitted a separate report on the experience with the new custodial arrangements. Implementation of those arrangements had commenced in 1994 and was completed in 1995. Three regional custodians and a Master Record Keeper were retained. The report reviewed key elements of the contractual arrangements in evaluating the efficiency and effectiveness of the new arrangements. These included cost-effectiveness, timeliness of trade settlement, income collection, tax reclamation and the anticipated reduction in risks associated with such arrangements. The report's conclusions were that the Fund had benefited from the new custodial arrangements. They provided greater protection of the securities holdings at a substantially lower cost. Custody fees were reduced from an annual average of $5.9 million during the biennium 1992-1993 to $4.1 million during the biennium 1994-1995. Counterpart risk was reduced through the use of multiple custodians. Legal risks have been reduced by contracting directly with multiple custodians, and operational risks have been reduced by the financial and procedural audits which are contractually guaranteed. Although some operational adjustments still needed to be made, particularly in the area of tax reclamation and income collection, the new custodial arrangements worked satisfactorily and represented a great improvement over the previous arrangement. Further improvements are expected as the arrangements are refined and made more efficient.

Advisory services

87. As also indicated in paragraph 69 above, the representative of the Secretary-General submitted a report on the status of the review of the current advisory arrangements, which the General Assembly had requested in resolution 49/224. He provided information on the evolution of advisory services and commented on the fiduciary responsibility of the Secretary-General for the Fund's investments and on the respective roles of the Investments Committee and the institutional adviser.

88. Except for a relatively brief period, the current adviser, Fiduciary Trust Company International (FTCI), has served as the sole global adviser to the Fund. However, its involvement in the investment process has changed over the years as the in-house management capacity of the Investment Management Service (IMS) was gradually developed and strengthened. FTCI served as an important source of advice, but its staff had no discretion to make investment decisions for the Fund. In the light of the request in General Assembly resolution 49/224 and the scheduled expiration of the advisory contract with FTCI on 30 June 1996, the Secretary-General had decided to re-evaluate the current arrangements and to initiate competitive bidding to identify one or more advisers to be retained. Pending the completion of that process, the Secretary-General had extended the FTCI contract for a period of up to 270 days, in order to provide sufficient time for consultations with both the Investments Committee and the Pension Board on the advisory review and selection process.

89. A request for proposals had been sent to 38 institutions. A subsequent pre-proposal conference held at United Nations Headquarters in New York was attended by 24 institutions; clarifications were provided regarding the request for proposals. Twelve institutions then submitted acceptable proposals.

90. An evaluation scheme prepared by IMS and reviewed by the Investments Committee was utilized by IMS to make an initial evaluation of the proposals. Because of the specialized nature of the advisory services required, the Secretary-General decided to set up a high-level special committee, chaired by the Controller of the United Nations, to examine the results of the initial evaluation by IMS and to make a recommendation to the Secretary-General, through his representative for the investments of the Fund, regarding the institution or institutions that should be retained to provide investment advice. The selection process was expected to be completed by 30 September 1996.

Discussion in the Board

91. During the discussion on the investment performance, members of the Board posed a wide range of questions, related, inter alia, to: the investment strategy in general and the recent substantial increase in the proportion of investments in equities in particular; the extent to which the liabilities of the Fund in the various currencies were taken into account in determining investment strategy and placements; the seemingly low proportion of investments in Switzerland; the extent of the investments in Hong Kong considering its uncertain future; the speed and effectiveness of the investment decision-making process, especially in crisis situations; the establishment of a benchmark against which the performance of the Fund could be assessed; the investment policy and strategy vis-à-vis the scheduled introduction of a common European currency, the Euro, by the year 1999; the future investment management requirements, given the size and growth rate of the assets; the paucity of investments in developing countries, particularly in Africa, and the rates of return related thereto; and the extent to which ethical considerations should

enter into the determination of investment placements. In addition, questions were raised as regards the experience with the new custodial arrangements and the review of the current advisory services.

92. The representative of the Secretary-General, the Chairman and other members of the Investments Committee and the Chief of IMS commented on: the process followed in determining asset allocations, including the selection of and weightings in the various markets; the information received regularly on the currency liabilities of the Fund; the efforts made to reduce the number of holdings of the Fund so as to concentrate more of the resources of the Fund in high-quality investments, while minimizing risk and avoiding speculative investments; and the ongoing discussions in the Investments Committee on developments as regards the "Euro". The substantial increase in the proportion of the investments in equities was based on the assessment of developments in the markets and on the historical fact that equities have provided superior performance over the last 25 years and even longer. As the Fund was a defined benefits plan with inflation indexation of pensions, investments in equities provided the best instrument for matching the assets to the nature of the liabilities and for obtaining both growth in the assets and good long-term returns.

93. The Board was also informed that the proportion of investments in some countries, in particular Switzerland, had been lower than might have been expected because of the restrictions, until recently, on investments in some multinational companies. As regards investments in Hong Kong, it was noted that the equity markets there were heavily influenced by the situation prevailing in the United States and Asian markets, and that the Hong Kong investments had performed well. As for the investment decision-making process in times of crisis, the Board was informed that, through fax and telephone contacts, the representative of the Secretary-General and the staff of IMS were able to consult members of the Investments Committee and other sources of investment advice and to act quickly.

94. As regards the establishment of an investment benchmark, the Board was apprised of the extensive efforts made over the last year by the representative of the Secretary-General, the staff of IMS and the Investments Committee, with the assistance of outside consultants, to develop an appropriate benchmark for the Fund; it was expected that a benchmark would be in place by the end of 1996.

95. The Board was informed that every effort was made to find appropriate investment opportunities in developing countries, both through direct investments in those countries and through investments in development-related institutions. With respect to future reporting of such investments, the representative of the Secretary-General undertook to provide a separate breakdown of the direct and indirect investments and to include information on the rates of return of each, together with an aggregate rate of return for all investments in developing countries and development-related institutions.

96. As regards ethical considerations in making investments, it was observed that there was always a need to find the appropriate balance between pursuing profits and being sensitive to ethical considerations.

97. In response to questions concerning the safety features in the custody contracts, in the event that a custodian became insolvent, the Board was informed that one of the main features of the new arrangements was that the assets were "held in the name of the United Nations, separately from the assets of the United Nations, on behalf of the participants and beneficiaries of the

Fund". In the drafting of the contracts, the Office of Legal Affairs of the Secretariat had ensured that the custodians were required to obtain appropriate insurance coverage. Diversification, not only into multiple custodians but also into subcustodians in individual countries, was itself an added risk-reducing element. The representative of the Secretary-General indicated that the performance of the custodians would be closely monitored and new requests for proposals would be initiated when and as necessary.

98. As regards the review of advisory services, questions were raised as to the modalities for taking into account the views of the Board in the process. It was also suggested that performance criteria should be developed for measuring the track record of the companies under consideration.

99. The Board was informed that the views expressed during the discussion on the advisory services would be conveyed to the high-level special committee. As to future involvement of the Board in the process insofar as issues of policy arise, it was agreed that the Chairman of the special committee, who was also one of the members representing the Secretary-General of the United Nations on the Board, would keep Board members apprised of developments, with the assistance of the Secretary of the Board, through communications to the secretaries of the staff pension committees of the member organizations of the Fund. This modality would also be used for members of the Board to communicate views on policy issues to the special committee.

100. The Board expressed its appreciation to the representative of the Secretary-General, to the Chairman and other members of the Investments Committee, and to the staff of IMS and FTCI, for the good investment performance. The Board noted with regret that the Chairman of the Investments Committee, Mr. Jean Guyot, had indicated his wish not to be considered for reappointment when his term expires at the end of 1996. The Board thanked and paid tribute to him for his valuable contributions to the work of the Committee during his 24 years as a member, and 4 years as the Chairman.

B. Membership of the Investments Committee

101. The Secretary-General, in accordance with article 20 of the Regulations of the Fund, conveyed to the Board the names of four members of the Investments Committee, Ms. Francine Bovich and Messrs. Takeshi Ohta, Fernando Chico Pardo and Peter Stormonth Darling, whom he intended to propose to the General Assembly at its fifty-first session, after consultation with the Advisory Committee on Administrative and Budgetary Questions. Ms. Francine Bovich and Mr. Takeshi Ohta would be reappointed as members for further terms of three years, commencing from 1 January 1997; Mr. Peter Stormonth Darling, who had been serving as an ad hoc member since 1990, would be appointed as a regular member for a term of three years, commencing from 1 January 1997; and Mr. Fernando Chico Pardo, who had been serving as an ad hoc member during 1996, would be appointed as a regular member with effect from 1 January 1997 to fill the remainder of the term of Mr. Aloysio de Andrade Faria, who had resigned (the term expires on 31 December 1997). In addition, the Secretary-General intended to appoint Mr. Jean Guyot, the current Chairman of the Investments Committee, as member emeritus effective 1 January 1997.

V. FINANCIAL STATEMENTS OF THE FUND AND REPORT OF THE BOARD OF AUDITORS

A. Financial statements and audit

102. The Board examined and approved the financial statements and related data on the operations of the Fund for the year ended 31 December 1995, submitted by the Secretary for inclusion in the report of the Board to the General Assembly and to the member organizations.

103. In response to the recommendation of the Board of Auditors that the Fund's Administrative Rules be modified so as to regularize the practice of accepting, in limited circumstances, the payment of contributions in currencies other than the United States dollar, to the extent that payment of benefits could be made in those currencies (annex III, paras. 9 (a) and 47-50), the Board decided to modify rule D.1 of the Fund's Administrative Rules; the amended text of rule D.1 reads as follows:

> "D.1 Contributions as specified in column B in article 25 (a) shall be deducted monthly by the member organization from the salary and emoluments of each of its participants in pay status and remitted in dollars to the Fund; however, to the extent required for the payment of benefits in local currencies, the Secretary may accept that a member organization remit its monthly contributions in a specific local currency rather than dollars (applying the United Nations operational rate of exchange in effect when the organization's contribution is remitted). The contributions of a participant in partial pay status shall be on the basis of his full pensionable remuneration."

104. Noting that the Board of Auditors' examination had revealed no material weakness or errors in the Fund's procedures and operational systems, nor any evidence of fraud, several members of the Board commended the Secretary on the management of the Fund, which had led to the satisfactory audit report for the biennium ended 31 December 1995. A member representing the General Assembly noted that any view of the Fund's degree of exposure to possible fraud should be considered in the perspective of the report of the Board of Auditors.

105. The Secretary confirmed that, in accordance with the recommendation from the Board of Auditors (see annex III, paras. 9 (c), 27-30), he would commence negotiations with the Consulting Actuary with a view towards concluding a formal contract for services. Several members of the Board expressed the hope that a contract could be concluded on advantageous terms for the Fund, covering all required actuarial services. With respect to the recommendation of the Board of Auditors concerning verifications of continued eligibility for entitlements (annex III, paras. 9 (b), 32-34), the Board noted that the Secretary has taken a number of measures to improve the monitoring and control procedures for payments (see paras. 118-122 below).

106. The report of the Board of Auditors also suggested (annex III, para. 42) that further appeals should be made to States Members of the United Nations to recognize the tax-exempt status of the Fund with respect to its investment income. The Board decided to recommend that the General Assembly again appeal formally to Member States to exempt the Fund's investment income from direct taxes, as called for under the Convention on the Privileges and Immunities of the United Nations. Several participants' representatives also expressed the view that greater efforts should be made to recover amounts withheld in the

past. The Board noted that eight additional countries had agreed during the biennium to grant tax-exempt status to the Fund's investments.

107. The Board took note of the report of the Board of Auditors on the accounts of the Fund for the biennium 1994-1995.

B. Procurement arrangements for UNJSPF

108. The Board recalled that the Standing Committee had considered, at its July 1995 meeting, the procurement arrangements for the Fund, in response to an observation made by the Fund's auditors. The Standing Committee at that time (a) endorsed the long-standing practice of processing the Fund's purchases and contracts normally through utilization of the United Nations machinery established for that purpose; and (b) requested the Secretary to report to the Board in 1996 on his discussions with the United Nations offices concerned, aimed at developing practical arrangements to deal with those situations where the Secretary needed to act on his own authority.

109. The Board reaffirmed the position it had taken in 1984 to the effect that:

(a) As an independent inter-agency entity, the Fund was not bound to follow in any area the regulations and rules of any of its member organizations; and

(b) While it was the Fund's practice to follow as much as possible the Financial Regulations and Rules of the United Nations, in the administration and management of the Fund paramount importance had to be given to its special inter-agency status and to the Fund's Regulations and Rules.

110. The Board also endorsed continuation of the Fund's practice of utilizing the appropriate United Nations offices and procedures for carrying out, generally and in the normal course, contracting and procurement activities for the Fund. Furthermore, the Board agreed that the United Nations procedures in this area, as applied to contracting and procurement for the Fund, had to take full account of the particular responsibilities and constraints imposed on the Secretary of the Board by the Fund's Regulations and Rules. The Secretary served as the Chief Executive Officer of the Fund and was responsible for its operations and management; he was accountable to the Board, which, in turn, reported to the General Assembly.

111. Accordingly, the Board decided to recommend that the General Assembly request the Secretary-General to continue to make available to the Fund the United Nations machinery for contracting and procurement (i.e., the services of the United Nations Purchase and Transportation Division (United Nations/PTD) and the Headquarters Committee on Contracts). Under this arrangement, reviews and recommendations with respect to the Fund's contracting and procurement actions, made by United Nations/PTD or the Headquarters Committee on Contracts, would be submitted directly to the Secretary for decision.

112. The Board also agreed to authorize the Secretary to continue to act on his own authority in the following special situations (which the Board expected to be quite rare):

(a) United Nations/PTD could not complete the process within the required time-frame;

(b) The Secretary was unable to accept a particular recommendation made by United Nations/PTD or by the Headquarters' Committee on Contracts; or

(c) United Nations/PTD informed the Secretary that a particular contract or procurement could not be carried out by that office.

The Board requested the Secretary to report to the Standing Committee on cases where he had to proceed with contracting or procurement actions in the circumstances described in (a) to (c) above.

C. Auditing arrangements for UNJSPF

113. Pursuant to a recommendation made in 1994 by the United Nations Board of Auditors, which had been supported by the Pension Board, ACABQ and the General Assembly, the Fund's 1996-1997 biennium budget included provisions for the establishment of an internal audit function for the Fund: $512,000 was made available to enable the Office of Internal Oversight Services (OIOS) of the Secretariat to carry out that function. These arrangements were to be reviewed by the Board at its 1996 session, and by the Standing Committee in 1997 in the context of preparing the Fund's budget proposals for the biennium 1998-1999. In addition, ACABQ recommended last year 5/ that the Board provide clarification and guidance to the Secretary on (a) the submission of reports by OIOS regarding the results of internal audits of the Fund and (b) the best method for payment by the Fund for the services of OIOS (i.e., by fee for service, or by financing a separate unit in OIOS).

114. The Secretary confirmed that a "UNJSPF Audit Unit" would be established by OIOS for the balance of the biennium 1996-1997, consisting of one P-4 auditor and one audit clerk financed by the Fund. The internal audit function was expected to commence in September 1996. With respect to the investment area, OIOS had agreed with the representative of the Secretary-General for the investments of the Fund that OIOS would retain a firm with strong investment accounting experience to carry out a comprehensive audit of the Fund's investment activities; while OIOS would supervise that firm's work, no posts would be established.

115. The participants' representatives on the Board stressed that internal audit was a management tool designed to assist the head of the organization concerned in improving its operations and procedures. While they could accept that the internal audit function was being entrusted to OIOS on an initial temporary basis, it was their clear expectation that the 1998-1999 biennium budget for the Fund would make provision for an internal audit unit within the Fund. However, some other speakers continued to have doubts as to the effectiveness of an isolated internal audit unit in the Fund secretariat composed of only one or two auditors, who could not draw on the experience and knowledge of a larger group of auditors.

116. The Board decided to maintain its prior decision to assign the internal audit function for the Fund initially to OIOS. Based on the actual experience, the issue would be re-examined by the Standing Committee next year, when dealing with the budget for the biennium 1998-1999, and as necessary by the Board in 1998 or thereafter.

117. The Board also agreed that reports on, or the results of, internal audits carried out by OIOS would be transmitted to the Secretary. The results of internal audits of the investment area would be communicated by OIOS to the

Secretary-General of the United Nations, through his designated representative, and to the Secretary.

D. Monitoring and control procedures for payments, including surviving spouses' benefits

118. At its July 1994 session, the Board decided not to endorse a recommendation made by the Board of Auditors that widows and widowers should be required to submit to the Fund, at regular intervals, notarized affidavits to the effect that they had not remarried. (Under the Fund's Regulations such benefits for surviving spouses are discontinued upon remarriage.) The Board was not convinced that notarized affidavits would be a useful, reliable or cost-effective solution to avoiding fraud. Instead, the Board requested the Secretary "to continue to explore new technologies and procedures aimed at strengthening the verification process, taking into account current resources available for this purpose". The General Assembly, in resolution 49/224, had also requested the Board "to continue to review the monitoring and control procedures for payments from the Fund in order to strengthen the verification process, including those related to the payment of benefits to widows and widowers, and to report thereupon to the General Assembly at its fifty-first session".

119. The Secretary described to the Board the measures that the Fund's secretariat has implemented in order to strengthen the verification process, including those related to the design, preparation and mailing of Certificates of Entitlement (CEs) to all beneficiaries of the Fund. Those measures have included: (a) redesign of the CEs to a multilingual mailer format, providing greater clarity of content, more specifically focused certification and improved ease of use; (b) utilization of International Priority Airmail to reduce significantly the turnaround time for CEs; (c) scanning all CEs into the files of beneficiaries; (d) tightened requirements for indicating replies to the remarriage query on CEs; and (e) implementation of a database design enhancement that supports cross-referencing of pensioners' identification data with all other Pension Fund information systems. The Secretary noted that additional study and discussion within the Fund's secretariat confirmed the earlier conclusion that requesting affidavits of non-remarriage from widows and widowers receiving survivors' benefits would be neither reliable nor cost-effective. He also outlined other steps that the Fund was exploring in order to strengthen the verification process, in particular technological advances in signature and thumbprint identification techniques. There were also continuing efforts to exchange ideas with other organizations, both national and international, in order to assess possible additional approaches and procedures that might be adapted to the Fund's particular circumstances.

120. The Board noted with satisfaction the rapid progress made by the Fund's secretariat in tightening the process of verification through the Certificates of Entitlement. It was stressed that any new procedures and approaches under consideration had to be both cost-effective and likely to detect or deter fraud, without creating undue burdens for the Fund's tens of thousands of beneficiaries residing all over the world.

121. The Board welcomed the additional verification measures that the Fund intended to introduce in the near future, which include: (a) creation of a current base file of signatures for verification purposes; (b) broadening significantly the scope of signature verification; and (c) notifying all widows/widowers of their responsibility to advise the Fund of any change in

their marital status. The Board also concurred that, henceforth, CEs might include a warning to the effect that wilful misrepresentation for the purpose of collecting benefits from the Fund might lead to prosecution by the appropriate national authorities.

122. The Board requested the Secretary to report to the General Assembly on the detailed measures already taken, as well as those currently under consideration, to strengthen the verification process. The Board also decided to keep under review the monitoring and control procedures of the Fund.

VI. COMPREHENSIVE REVIEWS OF THE PENSIONABLE REMUNERATION AND CONSEQUENT PENSIONS OF STAFF IN THE PROFESSIONAL AND HIGHER CATEGORIES AND IN THE GENERAL SERVICE AND RELATED CATEGORIES

A. Introduction

123. Pursuant to requests contained in several resolutions of the General Assembly (45/242, 47/203, 48/225), the International Civil Service Commission, in close cooperation with the Board, undertook comprehensive reviews of the pensionable remuneration and consequent pensions of staff in the Professional and higher categories and in the General Service and related categories. In accordance with an agreed timetable and work programme, these reviews, as well as the review of the special index for pensioners (see paras. 169-178 below), began in March 1996 when the Standing Committee considered advance copies of documents prepared for the spring session of the Commission by its secretariat, in close cooperation with the secretariat of the Board.

124. The arrangements agreed upon for cooperation between the Commission and the Board in the conduct of the reviews had the following objectives:

(a) To ensure full exchanges of views between the Commission and the Board, which would fully respect the differences in the compositions and mandates of the two bodies, as well as the differences in their respective methods of work and rules of procedure;

(b) To maintain an orderly process which would permit full cooperation at all stages of the reviews, through continuous and constructive exchanges of views, as well as commitments to mutual understanding and respect;

(c) To achieve close and meaningful cooperation in the formulation of recommendations to the General Assembly on the issues which would have implications for all the parties represented in the Board: the governing bodies, the administrations and the participants in the Fund.

125. At its meeting in March 1996, the Standing Committee formulated its initial views on the issues, without prejudice to the competence of the Board, for discussion with the Commission at its April/May 1996 session, through a tripartite delegation designated by the Committee. At its summer session in July 1996, the Board considered both the initial views of the Standing Committee and the tentative conclusions reached by the Commission at its spring session. At its summer session in late July/early August, ICSC took decisions on its recommendations to the General Assembly, taking into account the views of the Board, with respect to the following items:

(a) The methodology for determining the pensionable remuneration of staff in the Professional and higher categories;

(b) The methodology for determining the pensionable remuneration of staff in the General Service and related categories;

(c) The common staff assessment scale;

(d) The special index for pensioners.

The Commission's consideration of these issues is reflected in chapter III, paragraphs 25 to 125, of its annual report to the General Assembly. 6/

126. The ICSC report contains extensive information on the views and conclusions submitted to the Commission by the Standing Committee and the Board, including the oral presentations made to the Commission at each of its sessions. In order to minimize duplication, an abbreviated summary is provided herein on the contents of the submissions to ICSC by the Standing Committee and the Board, in respect of each of the major issues on which ICSC has made recommendations to the General Assembly.

B. Methodology for determining the pensionable remuneration of staff in the Professional and higher categories

127. The current basis for the methodology used to determine the pensionable remuneration of staff in the Professional and higher categories is income replacement in New York, under which pensions are linked to the net remuneration of officials at the base of the United Nations salary system. This approach, which had been adopted on the occasion of the 1986 review and confirmed in 1990, included:

(a) The methodology used to determine, on the occasion of comprehensive reviews, the scale of pensionable remuneration derived from the net remuneration levels in New York, taking into account the relationships of the levels of United Nations pensionable remuneration and consequent income replacement ratios to those in the comparator service, the United States Federal Civil Service;

(b) The procedures for adjusting and monitoring the pensionable remuneration scale between comprehensive reviews.

128. At its March 1996 meeting, the Standing Committee considered detailed information on the evolution of the United Nations/United States comparisons over the years 1990 to 1995, as well as the arrangements for an actuarial study to be carried out by an outside consultant of benefits from the United Nations pension system with those applicable under the two retirement schemes in the United States Federal Civil Service: the Civil Service Retirement Scheme (CSRS), which covered all United States civil servants until the end of 1983, and the Federal Employees Retirement Scheme (FERS) for those joining the United States Federal Civil Service on or after 1 January 1984. CSRS is a defined benefit scheme similar to the United Nations pension scheme. The FERS scheme consists of three components: (a) a defined benefits plan with no employee contribution, (b) a thrift savings plan and (c) the national Social Security plan.

129. The merits of such an actuarial study were discussed in the Standing Committee. Some speakers indicated that difficulties were inherent in any attempt to draw long-term operational conclusions based on actuarial comparisons between a defined benefits scheme, i.e., the United Nations pension plan, and a scheme with defined contribution elements, i.e., FERS. While such comparisons could be made, the results would depend heavily on the assumptions made as to the real rate of return and on the actual experience. Other speakers indicated that, however difficult and inexact such a comparison may be, it had to be recognized that FERS constituted part of the total compensation package for a large number of United States Federal employees. In their view, the General Assembly would wish to be apprised of the value of the FERS benefits in relation to those of the United Nations pension system. They maintained that comparisons

between the United Nations and the comparator service served as an important element in the methodology for determining the pensionable remuneration and consequent pensions of Professional staff.

130. The results of the actuarial study were considered by ICSC at its April/May session and by the Board at its July session; the conclusions of the Commission on that study are set out in its annual report to the General Assembly and the observations of the Board are provided in paragraph 135 below.

131. With respect to the application of the income replacement approach, the Standing Committee discussed the basis for use of 46.25 per cent as the grossing-up factor for staff in the Professional and higher categories. The representatives of both the participants and the executive heads indicated that, in addition to the average length of contributory service by those receiving retirement or early retirement benefits, consideration should also be given to (a) the comparison of United Nations/United States income replacement ratios and the United Nations/United States pensionable remuneration ratios; and (b) the impact on the income inversion in the anomaly of the difference between the grossing-up factor for Professional staff, 46.25 per cent, and that applicable to General Service staff, 66.25 per cent. (The income inversion anomaly and the impact thereon of the grossing-up factors are described in the ICSC report.)

132. It was noted that the United Nations income replacement ratios had been consistently lower than those for the United States over the period 1990 to 1995, and that the United Nations/United States pensionable remuneration ratio had dropped to 104.1 in 1995 and had been consistently below the 115 midpoint of the net remuneration margin range since 1992.

133. With respect to the difference in the grossing-up factors, it was noted that increasing the factor applicable to Professional staff would serve to reduce the income inversion anomaly. For these reasons, the representatives of the executive heads and of the participants favoured increasing the grossing-up factor for Professional staff; some favoured the use of the same grossing-up factor for all categories of staff, namely 66.25 per cent. Other speakers indicated that they were not in a position at that time to support any change. They noted that, based on the criterion of average length of contributory service upon retirement, which had been used in past comprehensive reviews, there did not seem to be grounds for changing the grossing-up factor for Professional staff. Moreover, in their view, it was important to take into account the United Nations/United States comparisons that would emerge from the actuarial study of the United Nations, CSRS and FERS pension schemes.

134. At its July 1996 session, the Board considered the initial views of the Standing Committee and the tentative conclusions of ICSC, including the Commission's assessment of the results of the actuarial study referred to in paragraph 128 above. Acting on the basis of consensus, the Board agreed to present the following recommendations to the General Assembly and to so inform the Commission:

(a) The income replacement approach and the current methodology related thereto, including the use of the 46.25 per cent grossing-up factor, should continue to serve as the basis for the determination of the pensionable remuneration of staff in the Professional and higher categories;

(b) The current interim adjustment procedure should be continued;

(c) The United Nations/United States pensionable remuneration and income replacement ratios should continue to be monitored between comprehensive reviews, at least biennially, and reported to the General Assembly whenever deemed necessary.

135. As regards the actuarial comparisons of the Fund benefits with those under the retirement schemes of the United States Federal Civil Service (i.e., CSRS and FERS), the Board concurred with the following observations made by the Committee of Actuaries:

> "The Committee of Actuaries noted that the consultants had adopted an acceptable and commonly used method in carrying out the study. It was, however, stressed that such a study could only show whether the costs of the various plans were more or less in line. Its results could not be used to conclude that the benefit provisions of any of the plans required significant amendment or modification. In particular, it was extremely difficult to draw any meaningful conclusions from comparing a defined-benefits scheme such as the UNJSPF with a scheme that incorporated benefits derived from a national social security plan and a defined-contributions component, such as FERS. It was also noted that, without full details of the method and assumptions used in making the comparative actuarial calculations, it was not possible to draw other than general conclusions from the figures provided."

136. The conclusions and recommendations of ICSC on this issue are contained in chapter III (paras. 54 and 55) of its annual report to the General Assembly. 6/

C. Methodology for determining pensionable remuneration of staff in the General Service and related categories

137. As had been the case for staff in the Professional and higher categories, the Standing Committee at its March 1996 meeting agreed that no change should be made at this time in the use of the income replacement approach in the determination of pensionable remuneration of staff in the General Service and related categories. It focused attention on the grossing-up factor for such staff, 66.25 per cent, and on the issue of the non-pensionable component.

138. The participants' representatives expressed the view that the grossing-up factor should be increased to 70 per cent, to correspond to the increase in the maximum accumulation rate recently approved by the General Assembly (see para. 64 above). The representatives of the executive heads stated that there was no need at this time to make a change in the grossing-up factor for General Service staff, considering that no staff member could obtain the new maximum accumulation rate of 70 per cent before July 2000 at the earliest. The initial view, presented by the Standing Committee to the Commission on this matter for discussion purposes, was that the 66.25 per cent grossing-up factor should be retained for the time being. This position was subsequently endorsed by the Board.

139. As regards the issue of the non-pensionable component of General Service salaries, the participants' representatives regretted the continuous delays in addressing this issue, which appeared to be the result of disagreements as to whether the issue should be considered as a salary or a pension matter. They requested that priority be given to a study of the impact of the non-pensionable component on the income replacement ratios at a number of duty stations. The representatives of the executive heads took the position that the

non-pensionable component should be addressed in 1997, in the context of the review of the General Service salary survey methodology.

140. At the April/May session of the Commission, the delegation of the Standing Committee pressed for the establishment of a joint working group of the Commission and the Board to review the issue of the non-pensionable component. The Commission agreed to the establishment of a working group to consider the non-pensionable component as part of the Commission's review of the General Service salary survey methodology scheduled for 1997, and indicated that the composition and mandate of the working group would be determined at its summer session, taking into account the views of the Pension Board.

141. At its July session, the Board endorsed the proposal to establish a working group and designated three members, one from each of the constituent groups represented on the Board, to serve on a joint ICSC/Pension Board working group, should the Commission agree to its establishment.

142. The Board also agreed on the following recommendations to the General Assembly and to so inform the Commission:

(a) The income replacement approach and the methodology related thereto, including the use of 66.25 per cent of the net pensionable salary for grossing-up purposes, should continue to be used for the determination of pensionable remuneration of staff in the General Service and related categories;

(b) The current interim adjustment procedure should be continued.

143. The conclusions and recommendations of the Commission on this issue are contained in chapter III (paras. 66 and 67) of its annual report to the General Assembly. 6/

D. Development of common scale of staff assessment

144. At its March 1996 meeting, the Standing Committee had considered the initial document on the development of a common scale of staff assessment, prepared by the secretariat of ICSC with the assistance of a working group established by the Commission. The working group had discussed several tax calculation and aggregation procedures and had suggested changes in the weighting used in aggregating the tax data, in the determination of the tax deductions and in the regression techniques. The working group also provided options based on the use of tax deductions applicable to (a) employees and (b) retirees.

145. Differing views were expressed in the Standing Committee in respect of many of the parameters involved in developing a common scale of staff assessment: the number and selection of countries whose tax data were used; the source of the tax data; the different weighting procedures; the various regression techniques; the selection as between the use of employee or retiree tax deductions; and the need to relate the choice of employee or retiree tax deductions to the level of the grossing-up factor.

146. The initial views of the Standing Committee presented to the April/May session of the Commission were as follows:

(a) Equal weighting would seem to be the preferred choice, even though this approach represented a departure from the earlier decision of the

Commission and the General Assembly; support was also expressed for the use of tax data for the seven headquarters duty stations at this time, provided that necessary adjustments were made at the lower and upper ends of the staff assessment scale, and without prejudice to including more duty stations in the future;

(b) In making a choice between retiree and employee deductions in determining the outside taxes to be used in constructing a common staff assessment scale, there was a need to ensure coherence with the grossing-up factors used;

(c) The same regression method should, in principle, be used for all categories, but pragmatism was necessary in the light of the data to be provided.

147. At its July session, the Board considered the initial views of the Standing Committee, the tentative conclusions of the Commission at its April/May 1996 session, and the further documentation prepared by the secretariat of the Commission, in close cooperation with the Fund's secretariat.

148. In requesting a further document, the Commission had formulated the following guidelines and objectives for the development and testing of possible common scales of staff assessment:

(a) The income inversion phenomenon should be significantly addressed, particularly at net income levels applicable to both Professional and General Service staff;

(b) Low net income levels should not be adversely affected; and

(c) High net income levels should receive no additional benefit as the result of the determination of a common scale of staff assessment.

149. Six alternative scales of staff assessment were tested and compared to the current scale of staff assessment. The six alternatives were each subdivided further as between dependency status, i.e., married tax rates for Professional staff and single tax rates for General Service staff. All alternatives used the equal weighting approach. Therefore, the basic differences among the six alternatives related to (a) the use of employee or retiree tax deductions; and (b) the type of regression analysis: straight line, logarithmic and combinations of the two. The six alternatives were tested as against the three objectives set out in the preceding paragraph, on the basis of which two alternatives were retained, both involving the use of employee tax deductions. From the two alternatives retained, two modified scales of staff assessment were developed, based on judgements related to the three objectives.

150. The discussion in the Board ranged from exchanges of views on issues of principle and policy to debates on technical analyses of the effects of the different choices of income brackets and the marginal tax rates for the various brackets, especially as regards the lowest and highest income levels.

151. Following an extensive exchange of views, the Board decided to establish a working group, chaired by the Chairman of the Board and composed of two persons designated by each of the constituent groups represented on the Board. The mandate of the working group was to draft conclusions on the development of a common staff assessment scale for the consideration of the Board. The working group was able to reach agreement on a compromise text, which was accepted by

the Board and presented to the Commission as reflecting the views of the Board on the development of a common staff assessment scale. The agreed text was as set out in paragraphs 152 to 159 below.

Conclusions of the Board on the common scale of staff assessment

152. The Board reviewed the documentation placed before it, including, inter alia, the report of the 178th meeting of its Standing Committee and the tentative conclusions of ICSC.

153. It noted in particular that there was a convergence of views between the Standing Committee and the Commission on the use of equal weights to be applied in calculating an average net-to-gross tax relationship across the seven headquarters duty stations selected for that purpose. That convergence also extended to the smoothing of the net-to-gross tax relationships from lower to higher income levels by the use of a regression line, which would help to meet the objective of not adversely impacting pensionable remuneration levels at lower United States dollar income levels as well as not increasing pensionable remuneration at the higher dollar income levels. The Board fully endorsed the above views.

154. The Board felt that achievement of the objective of devising a scale which would provide protection to pensionable remuneration levels at lower dollar income levels could be facilitated by increasing by one or two the number of tax brackets at present suggested by the Commission secretariat, particularly at the lower end of the scale.

155. As regards potential increases in pensionable remuneration at higher levels, the Board recalled the current methodology for establishing pensionable remuneration for staff at income levels higher than D-2, top step, 7/ and felt that, in the context of a common scale of staff assessment, a similar approach could be considered for similar levels of remuneration for General Service staff.

156. As regards the issue of the employee versus retiree tax deductions, the Board took note of the position taken by the Standing Committee to the effect that, in choosing between these two approaches to tax deduction, there was a need to ensure coherence with the grossing-up factors used. This appeared to justify the introduction of the use of retiree deductions rather than the sole use of employee deductions, although the Board was informed of apparent technical difficulties in establishing appropriate retiree deductions. In the circumstances, the Board took the view that it could not at this juncture endorse the implementation of an approach fully based on retiree deductions alone, which would represent a fundamental departure from the current methodology. The matter should continue to be studied to ensure that the retiree tax information to be used would accurately reflect the situation. On balance, however, the Board felt that consideration should be given to the progressive introduction of this method building upon the current review, for example by reflecting, whenever appropriate, marginal tax rates corresponding to retiree tax deductions.

157. In arriving at its conclusions, the Board took note of the fact that the primary objective of the introduction of a common scale of staff assessment was to reduce the income inversion anomaly, the most significant cause of which had been identified in 1992 as the existence of different rates of staff assessment.

158. The Board agreed to apprise the Commission that, in these times of budget stringencies, one of the aims expressed by the representatives of the governing bodies was to limit potential additional costs to Member States which would result from the proposals submitted.

159. The Board noted that the results of the ICSC secretariat's calculations reflected complex interactions between tax changes in the seven duty stations, their weighting and the various techniques suggested to produce an operational scale within the guidelines and objectives expressed by ICSC as endorsed by the Board. The Board recommended to the Commission that it should review the relationship between variations in tax data and the existing interim adjustment mechanisms as reflected in the current scales of pensionable remuneration, to assist the General Assembly in its consideration of the common scale of staff assessment.

* * *

160. The conclusions and recommendations of the Commission on the common scale of staff assessment are contained in chapter III (paras. 105-108) of its annual report to the General Assembly. 6/

VII. PENSION ADJUSTMENT SYSTEM

A. Introduction

161. In 1991 and 1994, the General Assembly, acting on recommendation of the Board, approved three changes in the pension adjustment system and concurred with the Board that their actual costs/savings over time should be monitored on the occasion of actuarial valuations of the Fund. The changes were: (a) the 1 April 1992 modification, which provided greater compensation for cost-of-living differences in deriving the initial local currency pension for participants in the Professional and higher categories who submitted proof of residence in a high-cost country, i.e., higher than in New York, the base of the system; (b) the application of the 1 April 1992 modification to staff in the General Service and related categories as of 1 July 1995; and (c) the reduction of the 120 per cent cap provision to 110 per cent, also with effect from 1 July 1995. The first assessment of the cost of the 1 April 1992 modification in respect of Professional staff, covering the two-year period 1 April 1992 to 31 March 1994, was reported to the Assembly at its forty-ninth session; 8/ the second assessment is included herein, together with the first review of the other two changes.

162. The Board considered further three other items on which it had reported to the General Assembly in 1994, 9/ namely, the special index for pensioners, variations in pensions according to different dates of separation, and problems related to the determination of local currency track pensions in countries where significant changes had taken place in the relationship between the local currency and the United States dollar, through the introduction of a new currency unit, following long periods of steep depreciation of the previous currency unit(s) and high inflation rates, e.g., Argentina and Brazil. At the request of FAFICS, the Board also examined a proposed change in the method for determining cost-of-living adjustments of pensions in award.

B. Monitoring of the costs of recent modifications of the two-track feature of the pension adjustment system

163. Over the four-year period from 1 April 1992 through 31 March 1996 there had been 390 retirement or early retirement benefits whose amounts had been affected by the 1 April 1992 modification. These related to participants in the Professional and higher categories who had retired during the period and had provided proof of residence in countries where the criteria for application of cost-of-living differential factors to determine the initial local currency track pension had been met. The table below provides a summary of the benefits actually paid in the 13 countries concerned, together with the amounts that would have been paid under the previous arrangements.

Cost comparison of benefits which were subject to cost-of-living differential factors for the period 1 April 1992 through 31 March 1996

Countries	Number of benefits	Percentage distribution of 390 benefits	Total amount payable: previous system	Total amount payable: modified system	Difference	Percentage increase
			(United States dollars)			
Belgium	1	0.3	21 556	22 651	1 095	5.08
Denmark	3	0.8	30 891	32 287	1 396	4.52
France	105	26.9	6 686 186	6 792 848	106 662	1.60
Germany	11	2.8	769 333	797 004	27 671	3.60
Ireland	7	1.7	350 959	388 200	37 241	10.61
Japan	27	6.9	3 320 576	4 367 270	1 046 694	31.52
Luxembourg	1	0.3	34 602	35 712	1 110	3.21
Netherlands	2	0.5	45 988	48 648	2 660	5.78
Norway	1	0.3	8 451	10 058	1 607	19.02
Spain	6	1.5	363 901	379 103	15 202	4.18
Sweden	3	0.8	89 854	90 384	530	0.59
Switzerland	213	54.6	18 158 266	20 658 937	2 500 671	13.77
United Kingdom	10	2.6	322 503	326 207	3 704	1.15
Total	390	100.0	30 203 066	33 949 309	3 746 243	12.40

164. On the basis of the data in the above table, the Consulting Actuary had calculated the emerging costs of the 1 April 1992 modification to be 0.33 per cent of pensionable remuneration. The Committee of Actuaries noted with satisfaction that the emerging cost of 0.33 per cent of pensionable remuneration derived from the actual cost experience of the Fund was consistent with the original estimated cost of 0.30 per cent of pensionable remuneration, which had been determined by theoretical means. The cost assessment on the basis of the data for two years, on the occasion of the valuation as of 31 December 1993, had been 0.26 per cent of pensionable remuneration.

Extension of the 1 April 1992 modification to General Service staff separating on or after 1 July 1995

165. During the nine-month period under review there had been only one retirement benefit processed in respect of General Service staff which involved proof of residence in a country where the cost-of-living differential factors applied. In these circumstances, it was not possible to make as yet any estimate of the emerging cost of the extension of the 1 April 1992 modification to General Service staff.

Reduction of the 120 per cent cap provision to 110 per cent

166. As of 31 March 1996, of a total of 33,040 main benefits, 11,775 or 35.6 per cent pertained to beneficiaries who were on the two-track pension adjustment system. Of the 744 main benefits based on separations as from the date of the introduction of the 110 per cent cap provision (i.e., 1 July 1995) through 31 March 1996, only 154, or 20.7 per cent, related to beneficiaries who opted for the two-track adjustment system; none was affected, as of

31 March 1996, by the 110 per cent cap provision. However, the data for the short nine-month period reflected a reduction in the utilization rate of the two-track option from the 35.6 per cent level as of March 1996 to 20.7 per cent for those separating between 1 July 1995 through 31 March 1996.

167. The Consulting Actuary has indicated that the impact of lowering the cap from 120 to 110 per cent would have to be assessed over a longer period before any projected estimate could reasonably be made of the emerging long-term savings. The originally estimated savings were 0.20 per cent of pensionable remuneration, which had been based on the assumption of a modest decrease in the utilization rate of the two-track option from the 35 per cent level in 1994.

Discussion in the Board

168. The Board noted with satisfaction that the current cost estimate of the 1 April 1992 modification, 0.33 per cent of pensionable remuneration, remained in line with the initial cost estimate of 0.30 per cent made in 1991, and with the 0.26 per cent of pensionable remuneration cost calculated on the occasion of the first assessment of the emerging long-term additional cost made in 1994. The Board agreed that the monitoring of the costs/savings of the three measures should continue to be reviewed every two years, on the occasion of the actuarial valuations of the Fund.

C. Review of the special index for pensioners

169. When the Board recommended the 1 April 1992 modification of the pension adjustment system, the question of a review of the special index for pensioners was placed on the work programme of the Board and ICSC. The special index had been developed by ICSC, in close cooperation with the Board, as a means for reducing the cost-of-living differential factors otherwise applicable in determining the initial local currency pension in high-cost countries, whenever the taxes were lower in the country of retirement than the staff assessment rates reflected in the levels of pensionable remuneration.

170. The Board had reported to the forty-ninth session of the General Assembly on its initial review of the special index. 10/ The Commission had decided to defer decisions on the overall provisions of the special index until 1996, when the comprehensive reviews of pensionable remuneration and consequent pensions were scheduled to take place. As a result, the special index provisions were included among the items to be reviewed by the Commission this year, in close cooperation with the Pension Board.

171. The Commission's consideration of this issue is reflected in paragraphs 109 to 122 of chapter III of its annual report to the General Assembly. 6/

172. At its March 1996 meeting, the Standing Committee considered the special index on the basis of a document prepared by the ICSC secretariat, in close cooperation with the Fund's secretariat. Several representatives from the Vienna-based organizations expressed disappointment that the document had reviewed the technical aspects of the construction and application of the special index for pensioners, but had not included an examination of conceptual issues. They also stated that there should have been an analysis of the impact of the special index on income replacement ratios at locations where the index had applied. In their view, no technical changes should be made until a more comprehensive analysis has been undertaken of all aspects of the special index, covering conceptual as well as technical issues.

173. The representative of FAFICS had indicated agreement with some of these concerns, especially with the need for consideration of alternative approaches to achieving the objectives of the special index. Other speakers had stated that the reasons that had motivated the introduction of the special index remained valid and that the present arrangements had worked reasonably well.

174. The initial view of the Standing Committee, formulated for the purpose of discussions with ICSC by the delegation designated by the Committee, was that there should be no change at this time in the procedures for the calculation of the special index for pensioners. At its April/May 1996 session, ICSC tentatively concurred with the view of the Standing Committee.

Discussion in the Board

175. At its July 1996 session, the Board concurred with the initial position taken by both the Standing Committee and the Commission and decided to so report to the Commission and the General Assembly. The conclusions and recommendations of the Commission on this issue are contained in chapter III (para. 122) of its annual report to the General Assembly. 6/

176. Views differed in the Board during the discussion of this item as to whether there should be a further study of the special index. In order to avoid double taxation, the participants' representatives of the Vienna-based organizations suggested that provision should be made for the suspension of the application of the special index to certain beneficiaries on the basis of proof of the application to them of taxation by the relevant tax authorities of a country. It was suggested that a special ad hoc task force might be established to look into the question, taking into account the practices followed by other entities in considering the impact of taxes on pensions, e.g., the European Union. Other speakers saw no reason to attach priority to yet another study of the special index. They noted that the special index provisions could not be analysed without considering a number of features of the two-track pension adjustment system.

177. The representative of FAFICS acknowledged the existence of concern among some pensioners regarding the special index provisions, but felt that it might well be that this was not a major issue for retirees. He suggested that FAFICS might undertake consultations with its member associations to obtain views on this issue.

178. The Board concluded that there was no consensus to undertake a further study of the special index provisions at this stage. At the same time, it accepted the suggestion that FAFICS might examine the issue, in consultation with its member associations, and report its findings to the Board.

D. Variations in pensions according to dates of separation: local currency track

179. This issue has been on the agenda of the Board on numerous occasions since 1985. At the request of FAFICS, the Board had considered this issue in 1994, on the basis of a study by its Secretary in which variations in the annual amounts of the local currency track pensions were analysed for P-4, step XII, officials, retiring in a number of countries at age 60, with 20 years of contributory service, as adjusted to 30 April 1994, and covering separation dates from 1978 to 1993. The Secretary had concluded that there was no discernible pattern that would support any assertion or claim that the local currency pension, as

adjusted to 30 April 1994, had been consistently lower for the earlier retiree. The Secretary had also expressed doubts that it would be technically possible to minimize variations, over time and place, in both dollar pension amounts and local currency track amounts without establishing, in effect, fixed exchange rate relationships and concordance between adjustments of pensionable remuneration for those in service and of pensions for those who have retired.

180. During the discussion in the Board in 1994, the representatives of FAFICS, supported by the participants' representatives, urged that efforts be pursued to find solutions to inequities in the local currency pensions of beneficiaries who retired in high-cost countries. The representatives of the executive heads, while agreeing with the conclusion of the Secretary that there was no discernible pattern in the variations of the local currency pension amounts in high-cost countries, believed that further consideration should be given to the analysis and proposals contained in the paper that had been submitted by FAFICS. The representatives of the General Assembly considered that the question of variations in pensions according to dates of separation should be halted, unless specific means of identifying, defining and minimizing differences or particular remedial measures could be identified and justified.

181. The Board therefore decided in 1994 to request the Secretary to prepare a study, for consideration by the Board at its session in 1996, on "the pensions of former participants who retired in high-cost countries during the period from 1 January 1979, when the two-track pension adjustment system was introduced, through 31 December 1983, examining the initial pension amounts and all subsequent adjustments made, in order to determine whether a discernible pattern emerges".

Current review

182. Based on his updated and extended analysis of the evolution of the local currency track pensions and the income replacement ratios in six selected high-cost countries (Austria, France, Italy, Japan, Switzerland and the United Kingdom) and in other countries, the Secretary informed the Board that any attempt to control the evolution of pension amounts to, in effect, compensate for differences in the impact on pension amounts of developments over time and place as regards net remuneration, pensionable remuneration, exchange rates, inflation and other factors would tremendously complicate the already highly complex pension adjustment system. He noted further that the Fund arrangements were premised on determining the initial pension amounts, in United States dollars and in the local currency, on the level of the relevant parameters during the period prior to and including the month of separation; the purchasing power of the initial local currency pension amounts was then maintained by adjustments according to the local cost-of-living movements. In his view, any attempt to continuously relate the pension amounts of an earlier retiree, in local currency terms, to that of a later retiree, and vice versa, would be extremely costly, complicated and would not provide the degree of fairness and equity perceived by the proponents of such an exercise. In some countries the main attention was placed on the value of the dollar pension (particularly among General Service retirees in high inflation and low-dollar cost areas), while in others the concerns were with the evolution of the local currency amounts. Both could not be resolved at the same time unless (a) exchange rates between a local currency and the dollar were maintained at fixed or almost fixed rates, and (b) there was greater concordance between the frequency and extent of adjustments of pensionable remuneration and pensions in award. Neither possibility was likely to be achieved. The Secretary therefore requested the Board to decide whether it wished to pursue this matter further.

183. The FAFICS representative, although appreciative of the work of the Secretary, expressed serious disappointment with the conclusion and the approach of the Secretary's paper. While agreeing that variations in pensions depending on dates of separation might be unavoidable, FAFICS considered that the magnitude of the variations in local currency pensions for some Professional staff who retired in high-cost countries during the period 1979 to 1983 had reached unacceptable levels. FAFICS regretted that the problem submitted by it, limited to a relatively small number of elderly retirees in a few countries, had been enlarged to encompass, in a general way, the issue of variations in pensions according to dates of separation. FAFICS believed nevertheless that the exceptional problem of excessive variation in the local currency track could and should be solved.

184. Representatives of the executive heads and of the governing bodies, while expressing sympathy for the concern of FAFICS, considered that the pension adjustment system was already extremely complicated. In order to preserve its credibility, the Board could not revise the system to meet every specific situation. The Board concluded that this issue had been studied for many years and that any further studies would undoubtedly reach the same conclusions. The Board therefore decided that this matter should not be pursued further.

E. Determination of local currency track pension amounts in countries where significant changes had been introduced in the relationship between the local currency and the United States dollar, following long periods of steep depreciation of the local currency and high inflation rates

Background

185. In 1994, the Board requested the Secretary to prepare a study for presentation to the Board in 1996 on "problems or anomalies which may arise in the operation of the pension adjustment system in countries which have had, or might have in the future, very wide fluctuations in the exchange rate, thus affecting the intended stability envisaged in the use of the 36-month average exchange rate to determine the initial local currency pensions". In respect of that study, the Board also requested the Secretary to present to the Standing Committee in 1995 a report on "the problems encountered in countries like Argentina, in which dramatic changes were suddenly made and maintained in the relationship between the local currency and the dollar, after a long period of steep depreciation of the local currency and high inflation rates".

186. In the 1995 study, the Secretary provided an analysis of the problems experienced by beneficiaries in Argentina and in other similarly situated countries (e.g. Brazil), and made some suggestions as to how those problems might best be addressed. The introduction of new currency units in Argentina and Brazil, together with other measures, had resulted in a sudden and significant strengthening of the respective local currencies, the peso and the real, against the United States dollar, and consequent reductions in the respective rates of inflation; however, those inflation rates had continued to be higher than the rate in the United States, which served as the basis for adjusting the dollar pensions. As a result, there had been a considerable loss in the purchasing power of the dollar pension entitlements in both countries, as initially established and as adjusted over time. Beneficiaries in the two countries, with the exception of nine beneficiaries in Argentina, who had retired in the late 1970s or early 1980s, had not opted to move to the two-track

system as a means of protecting the purchasing power of their pensions in the local currency (a) because of the uncertainty as to the future value of their currency in relation to the United States dollar; and/or (b) in the case of earlier retirees, because of the aberrant results which occurred when the 36-month average exchange rates were used to convert the initial dollar pensions into the local currency.

187. After assessing various proposals that had been advanced for addressing such problems, the Secretary had presented for the consideration of the Standing Committee last year a "special measure" for determining the local currency track pension for participants residing in countries where the use of the 36-month average exchange rate would involve either (a) exchange rates related to different currency units in effect during the 36 months up to and including the month of separation, or (b) exchange rates related exclusively to a currency unit that was no longer in effect. The text of a possible modification to the pension adjustment system had been presented, setting out special arrangements for determining the initial local currency pensions in countries where a new currency unit had been introduced, which reflected a significant strengthening of the local currency in relation to the United States dollar.

188. During the discussion in the Standing Committee, questions had been raised related to (a) some of the eligibility requirements in the proposed special measure, and (b) the limitations placed on the parameters governing the possibility for returning to the dollar entitlement alone should the local currency weaken against the dollar.

189. Since changes in the pension adjustment system required approval by the General Assembly, and considering that the United Nations pension system had not been scheduled to be on the Assembly's agenda in 1995, the Standing Committee:

> "decided to request the Secretary to present the special measure for consideration by the Board next year, together with a further review of its various parameters in the light of the comments made in the Committee. It also agreed that the possibility of seeking implementation of the special measure effective as from 1 January 1996, without involving retroactivity of payments prior to that date, should be considered by the Board."

Current review

190. In his note to the Board at its session in July 1996, the Secretary reviewed the 1995 study and updated the information contained therein. In addition to the further analysis of the situations in Argentina and Brazil, the situation in Uruguay was examined in response to representations received from AFICS/Uruguay concerning the problems experienced by pensioners residing in that country. Uruguay had had a new currency unit, the Uruguayan new peso, introduced on 1 April 1993.

191. In Argentina, as of March 1996, of the 311 beneficiaries with mailing addresses in that country, 302 were on the dollar track only, i.e., they had not chosen to be on the two-track system. In Brazil and Uruguay, all of the 307 and 118 beneficiaries, respectively, with mailing addresses in those countries, were on the dollar track only. These choices were clearly based on the historically weak and uncertain relationship between the local currencies and the dollar. Moreover, until recently, in all three countries the cost of living was lower in dollar terms than at the base of the system, New York, as reflected by post adjustment relativities; therefore, choosing the dollar track pension was more favourable than the local currency option.

(a) Argentina

192. The post adjustment level in New York had been higher than in Argentina for all but one month during the period from January 1989 to December 1992. The introduction in January 1992 of a new currency unit, the Argentine peso, with a legally fixed parity relationship to the dollar, has changed the situation. During the years 1993 to 1996, the combination of a stronger currency and higher inflation rates than in New York have led to higher post adjustment levels in Argentina, to the extent that it now qualifies as a high-cost country where the 1 April 1992 modification of the pension adjustment system (i.e., the revised "Washington Formula") would apply. This development, as well as the stability of the Argentine peso for more than three years now, has eliminated the problem in determining the initial local currency pension for new retirees residing in Argentina; however, the difficulties cited in the previous studies remain for those who separated in earlier years and would now wish to opt for the two-track feature of the pension adjustment system.

193. Over the period January 1992 through December 1995, the movement of the United States Consumer Price Index (US-CPI) had been 11.4 per cent, whereas, over the same period, the Argentine-CPI, as reflected in the indices published in the United Nations Monthly Bulletin of Statistics, had increased by 33.2 per cent (using the December 1995 index). Based on these movements and the value of the Argentine peso, a dollar pension amount in January 1992 of $1,000 would have increased under the pension adjustment system to $1,114 as of April 1996. The peso equivalences in January 1992 and April 1996 of the two amounts were 1,000 and 1,112, respectively, reflecting a peso increase of 11.2 per cent. Over the same period, the cost of living in Argentina increased by 33.2 per cent, while the value of the peso to the dollar moved from parity to 0.998. Therefore, the purchasing power of a peso equivalent pension amount of $1,000 in Argentina in January 1992 had decreased by 19.8 per cent by April 1996, i.e., it was 1,112 pesos ($1,000 x 1.114 x 0.998) instead of 1,332 pesos (1,000 pesos x 1.332).

(b) Brazil

194. As for Brazil, the new currency unit, the real, had been introduced as of 1 July 1994, initially with a parity relationship to the United States dollar, but had strengthened to 0.90 real to the dollar before the end of that month. Since then, the exchange rate has ranged from 0.85 to 0.987 real to the dollar. The cost of living in Brazil in dollar terms over the period January 1989 through December 1995 had been lower than in New York (except for four months during 1990), as measured by the post adjustment relativities. However, since the introduction of the real in July 1994, the post adjustment level in Brazil had steadily increased and, at the time the study was prepared, was higher than in New York by some 15 per cent. If this trend continued, Brazil would soon qualify as a "high-cost country", and the 1 April 1992 modification of the pension adjustment system would apply (as is currently the case for Argentina).

195. The relationship of the real to the dollar has not remained as stable as that of the Argentine peso; moreover, the inflation rate in Brazil continued to be significantly higher than that in the United States, although considerably lower than before the introduction of the real. From July 1994 to September 1995 (the latest month for which data were available when the study was prepared), the Brazil-CPI, as published in the United Nations Monthly Bulletin of Statistics, had increased by 71.4 per cent. Thus, a dollar pension amount of $1,000 in Brazil in July 1994 yielded initially 1,000 reais. The United States-CPI had increased by 5.4 per cent during the two-year period

December 1993 to December 1995, resulting in an adjustment of dollar pensions by that percentage in April 1996. Therefore, a $1,000 amount on 1 July 1994 would have increased to $1,054 on 1 April 1996. In April 1996 a $1,054 amount would have been the equivalent of 1,040 reais (i.e., 40 reais more than the amount on 1 July 1994), because of a depreciation of the real in relation to the United States dollar; however, as indicated above, the Brazil-CPI had increased by 71.4 per cent through September 1995. Therefore, the combined impact of the strengthening of the real against the dollar and the higher inflation rate in Brazil resulted in a purchasing power loss of the dollar pension amounts of 64.8 per cent, i.e., 1,040 reais ($1,000 x 1.054 x .987) instead of 1,714 reais (1,000 reais x 1.714).

(c) Uruguay

196. In the case of Uruguay, the new currency unit, the Uruguayan new peso, had been introduced as of 1 April 1993. The relationship between the Uruguayan new peso and the United States dollar had initially been set at 3.68 Uruguayan new pesos to the dollar, but had depreciated steadily to 7.43 Uruguayan new pesos to the dollar as of 1 April 1996. The situation in Uruguay therefore differs from that in Argentina and Brazil, since the new currency unit had depreciated by some 100 per cent since its introduction. Nevertheless, the post adjustment for Uruguay had increased because of the combined impact of changes in the value of the currency and the continuing very high inflation rate. At the time the study was prepared the post adjustment in Uruguay was higher than in New York by 14.7 per cent.

197. From April 1993 to November 1995 (the latest month for which data were available when the study was prepared), the Uruguay-CPI, as published in the United Nations Monthly Bulletin of Statistics, had increased by 262.13 per cent. Thus, a dollar pension amount of $1,000 in Uruguay in April 1993 had yielded initially 3,680 Uruguayan pesos. The United States-CPI had increased by 5.4 per cent during the two-year period from December 1993 to December 1995, resulting in an adjustment of dollar pensions by that percentage in April 1996. Therefore, a $1,000 amount on 1 April 1993 would have increased to $1,054 on 1 April 1996. As of April 1996, the Uruguayan new peso had depreciated from 3.68 to 7.43 pesos to the dollar, with the result that an amount of $1,054 yielded 7,831 Uruguayan new pesos, an increase of 112.8 per cent, as against an increase of the Uruguay-CPI by 262.13 per cent over the same period. Therefore, the combined impact of the changing relationship between the Uruguayan new peso and the dollar and the very high inflation rate in Uruguay had been a loss in the purchasing power of the dollar pension of 70.2 per cent, i.e., 7,831 Uruguayan new pesos ($1,000 x 1.054 x 7.43) instead of 13,326 Uruguayan new pesos (3,680 Uruguayan new pesos x 3.6213).

198. In these circumstances, the question arose as to why beneficiaries in the three countries had not opted to move to the two-track system as a means of protecting the purchasing power of their pensions in the local currency. The answer lies primarily in their uncertainty as regards the future value of the local currency in relation to the dollar. In addition, aberrant results would have occurred in Argentina and Brazil if the 36-month average of exchange rates had been used to convert the initial dollar pension amount at the time of separation into the initial local currency pension amount, in those cases where the dates of separation were such that the 36-month average exchange rate would have been composed of different currency units or exclusively of a currency unit no longer applicable (see the tables following paragraph 207 below). The results were due to the cycles of steep depreciation of the local currency, followed by high inflation, followed by changes in the currency unit, etc., as

occurred throughout the 1970s, 1980s and early 1990s in Argentina and Brazil. The timing of currency changes and the juxtaposition of the exchange rates and inflation rates would have given rise to initial local currency track amounts that varied significantly, both as initially established (i.e., as of the date of separation) and as adjusted over time. As a result of the aberrant figures, the two-track option for Argentina and Brazil had been suspended, pursuant to paragraph 26 of the provisions of the pension adjustment system 11/ and pending a resolution of the current problems.

199. In the case of Uruguay, the circumstances which led to losses in the purchasing power of the dollar pensions in that country differed from those prevailing in Argentina and Brazil. It had not proven necessary to suspend application of the two-track system in respect of Uruguay, since the combined use of the 36-month average exchange rates and local inflation rates did not lead to aberrant local currency track amounts. In any event, no beneficiary residing in Uruguay has sought to exercise the two-track option. It should be noted that in Uruguay, a more or less stable relationship between the Uruguayan peso and the United States dollar has not been maintained. The loss of purchasing power of the dollar pensions in Uruguay in recent years was due more to the high inflation rate in that country rather than to the introduction of a new, revalued local currency.

200. In the early part of 1995, the Secretary had received a number of suggestions which involved the direct use of post adjustment indices to adjust the dollar pension amounts, either as a temporary ad hoc measure at particular locations or as a permanent feature of the pension adjustment system. In the case of Brazil, the suggestion was advanced that a modified version of post adjustment indices should be used, based only on the in-area component.

201. In his 1995 study, the Secretary noted that continuous use of post adjustment relativities as the basis of determining place-to-place and time-to-time adjustments of dollar pensions would represent a fundamental change in the pension adjustment system, requiring extensive study of its desirability, feasibility, practicability and, above all, cost implications. He also indicated that the issue of the relevance of such an approach for adjusting the pensions of staff in the General Service and related categories would also have to be addressed.

202. With these considerations in mind, the Secretary had informed the Standing Committee last year and the Board this year that, in his view, the preferred course for meeting the problems faced by beneficiaries in countries where new currency units have been introduced would be to provide a means of converting the dollar pension into a local currency track pension other than through the use of the 36-month average of exchange rates, whenever the latter gave rise to aberrant results. This would require the determination of a fair method for converting the dollar pension entitlement into a local currency amount for those who wished to opt for the two-track adjustment system, as a means to protect the purchasing power of their pensions in local currency terms. As had been noted in the previous studies, use of the standard 36-month average exchange rate had led to anomalous and uneven results whenever its calculation included long periods of cycles of steep depreciation of the local currency and high inflation rates, followed by the sudden introduction of a new currency unit with a significantly strengthened and stable relationship against the United States dollar.

203. Under the special measure suggested by the Secretary in 1995, a modified procedure would be applied in determining the local currency track pension for

beneficiaries in countries where a new currency unit had been introduced and where the normal use of the 36-month average exchange rate would therefore involve either (a) exchange rates related to different currency units in effect during the 36-month period, or (b) exchange rates related exclusively to a currency unit which was no longer in effect. Twenty-seven countries had introduced currency unit changes over the last 10 years; 14 were new States established following the dissolution of the former USSR and Yugoslavia. The Fund currently has beneficiaries with mailing addresses in 16 of those countries as follows, with the numbers indicated in parentheses: Armenia (1), Argentina (311), Bolivia (52), Bosnia and Herzegovina (1), Brazil (307), Croatia (44), Israel (154), Kazakstan (1), Macedonia (2), Mexico (197), Nicaragua (13), Peru (163), Poland (160), Uganda (53), Uruguay (118) and Yugoslavia (108). Of these 16 countries, only five have beneficiaries who have opted for the two-track system: Argentina (9), Israel (17), Mexico (5), Poland (1) and Uganda (1); in the cases of Bolivia, Israel and Uganda, the new currency units entered into effect prior to 1990.

204. Under the suggested special measure, for beneficiaries who provide proof of residence in the eligible countries, the local currency pension amount would be established as of (a) the date of the initial entitlement (hereafter referred to as the "entitlement date"), or (b) the effective date of the new currency unit (hereafter referred to as the "new currency unit date"), whichever was later. If the entitlement date preceded the new currency unit date, the adjusted dollar pension amount as of the new currency unit date would be converted into a local currency pension amount as of that date, by applying the exchange rate for the month in which the new currency unit was introduced, e.g., January 1992 for Argentina, July 1994 for Brazil. The local currency pension amount so established would then be adjusted to the effective date of the special measure by the local-CPI movement, in accordance with the normal provisions of the pension adjustment system, except that cost-of-living movement would be measured only from the new currency unit date (i.e., local CPI on the new currency unit date = 100).

205. If the entitlement date was the same or later than the new currency unit date, the initial dollar pension would be converted into an initial local currency pension as of the entitlement date by applying the average of the exchange rates from the month in which the new currency unit came into effect through the month of separation, subject to averaging over a maximum of 36 months; therefore, if the separation took place 36 months or more after the month in which the new currency unit was introduced, the special measure would become, in effect, the current two-track arrangement.

206. The Secretary had also suggested that no retroactive payments be made under the special measure; the comparisons of the two-track amounts would begin only from the effective date of the special measure.

207. The three tables below provide in summary form the adjusted dollar pension amounts ($P) and adjusted local currency pension amounts (LCP) for Argentina, Brazil and Uruguay as of March 1995, for initial pension entitlements on 1 January for each of the years from 1990 to 1996, as well as for an initial entitlement date of 1 March 1996.

Table 1

ARGENTINA

Adjusted $P and adjusted LCP amounts as of March 1996
(P-4, step XII, at age 60 with 25 years' contributory service)

Effective date of initial entitlement	Dollar track		Local track a/	
	Adjusted $P	Peso b/ equivalent of $P	Adjusted LCP (pesos) c/ current system	Adjusted LCP (pesos) d/ special measure
1 Jan. 1990	42 146	42 062	130 188 e/	50 739
1 Jan. 1991	42 488	38 910	23 001 e/	51 151
1 Jan. 1992	45 098	42 864	29 136 e/	56 349
1 Jan. 1993	48 407	48 310	42 703	52 193
1 Jan. 1994	49 296	49 197	50 394	50 909
1 Jan. 1995	50 942	50 840	50 433	50 433
1 Mar. 1996	52 861	52 755	54 217 f/	54 217 f/

a/ Local currency track of two-track option chosen.

b/ Dollar pension times quarterly exchange rate, i.e., previous December exchange rate in these examples.

c/ Use of 36-month average exchange rate, plus cost-of-living differential factors where applicable.

d/ Under suggested special measure.

e/ Examples of aberrant results.

f/ Result of application of the Washington Formula.

Table 2

BRAZIL

Adjusted $P and adjusted LCP amounts as of March 1996
(P-4, step XII, at age 60 with 25 years' contributory service)

Effective date of initial entitlement	Dollar track		Local track a/	
	Adjusted $P	Real equivalent b/ of $P	Adjusted LCP (reais) c/ current system	Adjusted LCP (reais) d/ special measure
1 Jan. 1990	42 146	34 726	1 303 e/	61 396
1 Jan. 1991	42 488	37 038	3 485 e/	61 894
1 Jan. 1992	45 098	40 802	4 693 e/	65 696
1 Jan. 1993	48 407	44 133	5 165 e/	70 517
1 Jan. 1994	49 296	46 831	17 207 e/	71 812
1 Jan. 1995	50 942	48 394	15 489 e/	61 329
1 Mar. 1996	52 862	50 217	30 554 e/	47 892

a/ Local currency track of two-track option chosen.

b/ Dollar pension times quarterly exchange rate, i.e., previous December exchange rate in these examples.

c/ Use of 36-month average exchange rate, plus cost-of-living differential factors where applicable.

d/ Under suggested special measure.

e/ Examples of aberrant results.

Table 3

URUGUAY

Adjusted $P and adjusted LCP amounts as of March 1996
(P-4, step XII, at age 60 with 25 years' contributory service)

Effective date of initial entitlement	Dollar track		Local track a/	
	Adjusted $P	Peso equivalent b/ of $P	Adjusted LCP (pesos) c/ current system	Adjusted LCP (pesos) d/ special measure
1 Jan. 1990	42 146	279 972	233 310	307 761
1 Jan. 1991	42 488	269 017	197 229	310 261
1 Jan. 1992	45 098	296 355	197 626	331 510
1 Jan. 1993	48 407	320 546	212 197	358 572
1 Jan. 1994	49 296	340 142	255 277	345 323
1 Jan. 1995	50 942	351 499	258 248	297 316
1 Mar. 1996	52 861	364 741	272 763	275 406

a/ Local currency track of two-track option chosen.

b/ Dollar pension times quarterly exchange rate, i.e., previous December exchange rate in these examples.

c/ Use of 36-month average exchange rate, plus cost-of-living differential factors where applicable.

d/ Under suggested special measure.

208. As indicated in paragraph 203 above, the scope of application of the special measure would be limited to countries where a new currency unit has been introduced. The Secretary had also suggested that the following additional limitations might apply:

(a) The new currency unit should have come into effect on or after 1 January 1990 and have continued in effect through the implementation date of the special measure; and

(b) The new currency unit, when introduced, should have represented an increase in the value of the local currency against the United States dollar of at least 100 per cent.

209. These eligibility criteria would limit the scope of application of the special measure to countries in which there had been a sudden and significant strengthening of the local currency in relation to the dollar, through the introduction of a new currency unit.

210. The history of currency/inflation developments in the countries which have introduced new currency units would no doubt lead to reluctance among many beneficiaries residing in those countries to opt for the two-track system, due to understandable fears of dramatic reversal in future from a recently

strengthened local currency to a significantly weakened one (e.g., the development in Mexico in 1995). In that event, the combination of a reduction in the dollar equivalent of the local currency track pension and application of the "cap" provision, whenever the dollar track amount became higher than the local currency track amount, could result in benefits payable which would be less than the dollar track amount. This possibility also existed for beneficiaries who were currently on the two-track system in other countries. Nevertheless, given the limited and exceptional nature of the situations that would be covered by the special measure, the Secretary had suggested to the Standing Committee, and subsequently to the Board, that a time-limited "escape" provision might be provided, under which beneficiaries would be given a one-time option to withdraw from the two-track system in the event of a depreciation of the new currency unit by 50 per cent or more within a two-year period from the date of implementation of the special measure, if approved by the General Assembly.

211. The purpose of the proposed special measure would, therefore, be to provide the means of converting the dollar pensions into local currency track pensions by a means other than the use of the 36-month average of exchange rates whenever the latter gave rise to aberrant results. It would apply only in countries where new currency units had been introduced since 1990, representing a sudden and significant revaluation of the local currency.

212. At the request of the Standing Committee, the Secretary had also proposed changes in the provisions of paragraph 26 of the pension adjustment system to provide greater specificity in setting out criteria under which the local currency track amount might be discontinued.

213. The text of the provisions of the proposed special measure and of the revision of paragraph 26 of the pension adjustment system are contained in annex XV of this report.

214. In its paper on this subject, FAFICS expressed support for the special measure, but requested the Board to consider three suggested changes: (a) establishing, for Argentina, 1 April 1991 instead of 1 January 1992 as the effective date for the application of the measure; (b) extending from two to five years the period during which beneficiaries could exercise an option to return to the dollar pension alone; and (c) applying the effects of the special measure retroactively to 1 January 1996.

215. With respect to the first suggestion, the Secretary had indicated that, insofar as recognition by the United Nations for all its transactions was concerned, the new currency unit, the Argentine peso, was introduced only on 1 January 1992. The Secretary stressed the importance of maintaining the criteria of using dates and data which were official and had been accepted and published as such in the relevant United Nations publications; in the case of the pension adjustment system, the relevant publication was the United Nations Monthly Bulletin of Statistics. As for the time period for exercising the so-called "escape clause", this was a matter of judgement, but the Secretary had suggested that given its exceptional feature its duration should be limited.

216. The Secretary noted that the Standing Committee had indicated last year that the possibility of seeking an effective date for the special measure as from 1 January 1996 should be considered by the Board.

Discussion in the Board

217. The representative of FAFICS expressed appreciation for the proposal made by the Secretary to the Pension Board and urged the Board to recommend adoption of the special measure by the General Assembly. It reflected a fair and just resolution of the problems faced by pensioners in a number of Latin American countries. FAFICS also requested sympathetic consideration of the modifications proposed in respect of several parameters of the special measures (see para. 214 above).

218. The representatives of the executive heads supported the special measure and the modifications of paragraph 26 of the pension adjustment system, as proposed by the Secretary. The participants' representatives also supported the proposals, coupled with the changes requested by FAFICS.

219. The representatives of the governing bodies gave a reluctant endorsement to the proposals, while expressing concern that certain provisions of the special measure, in particular subparagraph (e) - the so-called escape clause - in the proposed new paragraph 38 of the pension adjustment system (see annex XV) could give rise to other claims in the future. Their agreement to its submission to the General Assembly was based on the explicit understanding that other beneficiaries would not seek to use it as a precedent in other circumstances.

220. After informal consultations, the Board decided to recommend the changes to the pension adjustment system suggested in the study prepared by the Secretary, to be implemented on 1 January 1997 but with retroactive effect to 1 January 1996.

F. Possible change in the method for determining cost-of-living adjustments of pensions in award

221. The Board considered this item on the basis of a note by FAFICS. During the present period of relatively low inflation in many countries, FAFICS had received numerous representations regarding difficulties caused to beneficiaries when they had to wait two years before their periodic benefits were adjusted for cost-of-living movements, as the 3 per cent trigger for such adjustments had not been reached in the first year. This had occurred twice within the last four years with respect to cost-of-living adjustments on the dollar track.

222. Under the pension adjustment system, the dollar pensions and, if applicable, the local currency pensions in award, are adjusted on an annual basis on the first of April of each year. The adjustments are made in accordance with the movement of the United States-CPI and of the CPI of the country of residence, subject to the movement of the relevant CPI since the last adjustment date having been at least 3 per cent. If the CPI had changed, since the last adjustment of 1 April, by 10 per cent or more, a further adjustment was made, on a semi-annual basis, on 1 October.

223. FAFICS suggested two alternatives for changing the Fund's current system for the adjustment of pensions in award, but expressed strong preference for the first method:

(a) Retain the annual adjustment as of 1 April, but eliminate the 3 per cent trigger point (retain however, unchanged, the 10 per cent threshold for semi-annual adjustments effective 1 October); or

(b) Retain the 3 per cent trigger and annual adjustments, but permit adjustments at the beginning of a subsequent quarter if the threshold has not been reached for a 1 April adjustment.

224. At its June 1996 session, the Committee of Actuaries considered the proposal of FAFICS for changing the procedures for effecting the cost-of-living adjustments for benefits in award. The Committee of Actuaries indicated that, as a matter of general principle, it favoured the granting of annual pension adjustments without any trigger. However, the Committee stressed that the Board would have to decide whether and when to recommend that the General Assembly adopt an appropriate amendment to the pension adjustment system.

225. The Consulting Actuary estimated the cost of option (a) in paragraph 223 above to be in the range of 0.27 to 0.54 per cent of pensionable remuneration.

226. The participants' representatives expressed support for the FAFICS proposal to eliminate the 3 per cent trigger. However, the representatives of the executive heads and governing bodies took the position that, at a time of a continuing actuarial imbalance for the Fund, they could not agree to a measure which would increase the current actuarial imbalance; they therefore believed, for cost reasons, that the change should not be recommended to the General Assembly. FAFICS therefore requested that if the proposal was not accepted at this session it should be reconsidered when the Fund's actuarial position had improved.

227. In the absence of a consensus, the Board concluded that it was not in a position to recommend to the General Assembly adoption of either option in the FAFICS proposal.

VIII. PROGRESS REPORT ON ACTIVITIES RELATED TO RESOLVING PROBLEMS CONCERNING THE IMPLEMENTATION OF THE TRANSFER AGREEMENTS BETWEEN THE FUND AND THE FORMER UNION OF SOVIET SOCIALIST REPUBLICS, UKRAINIAN SOVIET SOCIALIST REPUBLIC AND BYELORUSSIAN SOVIET SOCIALIST REPUBLIC

228. Every year since 1991, the Board has considered and reported to the General Assembly on issues related to the application of the Transfer Agreements with the Governments of the former USSR, Ukrainian SSR and Byelorussian SSR. 12/ At the request of the Board, the Secretary had contacted in 1991 the Governments of the Russian Federation, Ukraine and Belarus in order to commence discussions with respect to the claims and representations he had received from former Fund participants resident in the former USSR, Byelorussian SSR and Ukrainian SSR. While the Permanent Mission of the Russian Federation to the United Nations had indicated immediately its readiness to discuss the matter by designating a contact person, the Mission of Ukraine only did so in 1995 and that of Belarus has not yet provided such indication.

229. In September 1994, after numerous communications and other contacts, the Fund received a letter from the Vice-Prime Minister responsible for social matters in the Russian Federation, advising that the subject had been under consideration by the Government and that a working group of high-ranking officials, including representatives of the Association of Former International Civil Servants in Moscow (AFICS/Moscow), had been constituted to make concrete proposals to the Government. This had effectively been the initial substantive communication to the Fund from the authorities of the Russian Federation, and marked the first time the Government had recognized a need to seek appropriate redress to the problems which had arisen. The Fund had also received a letter dated 7 July 1995 from the Deputy Permanent Representative of the Russian Federation to the United Nations, informing the Secretary that a high-level delegation would be coming to New York later that month to discuss "aspects of the matter which remain outstanding and to search for possible solutions".

230. The Standing Committee, at its July 1995 meeting, welcomed this development and reiterated the position, affirmed by the General Assembly in its resolution 49/224 of 23 December 1994, that "the Fund has transferred to the Social Security Fund of the former Union of Soviet Socialist Republics the actuarial value of the pension rights accrued by individual former participants, as required under the Agreements".

231. Preliminary discussions with the delegation from the Government of the Russian Federation took place in New York from 25 to 27 July 1995. The Secretary provided to the Russian authorities a list of the former participants whose pension rights had been transferred under the three Agreements concerned and, with the assistance of the Consulting Actuary, determined estimates of the actuarial costs that would arise under various possible solutions which the Government of the Russian Federation had indicated might serve as the basis for an agreement. The Secretary then prepared a preliminary draft text of a possible agreement between the Fund and the Government, which was transmitted in November 1995 to the Deputy Minister for Social Protection, head of the delegation of the Russian Federation.

232. In January 1996, the Secretary received comments on the draft text from the Russian Government that also took into account the responses provided separately by AFICS/Moscow, to which the Secretary responded in early March 1996. At the

invitation of the Russian Government, the Secretary and two other members of the Fund secretariat visited Moscow, from 13 to 16 May, for further discussions, on the basis of a revised draft agreement prepared by the Fund, which took into account the preliminary comments made by the Government. The delegation of the Government of the Russian Federation was again led by the Deputy Minister for Social Protection and included representatives of the Ministry of Foreign Affairs and the Ministry of Finance. The President of AFICS/Moscow participated in the meetings and the Deputy Minister of Labour also attended one meeting.

233. The proposed agreement drafted during the Moscow meetings, which was initialled by both sides, and the accompanying protocol dealing with its implementation, are set out in annex VI to the present report. The AFICS/Moscow representative at the meetings indicated his acceptance of the proposed agreement and protocol, even though he recognized that its terms fell short of the full expectations of the members of the Association. In a follow-up letter to the Secretary dated 29 May 1996, the President of AFICS/Moscow stated:

> "... Although the agreed and initialled text does not meet in certain respect our expectations, we support it and hope that it will be approved by the Fund Board in July 1996 and subsequently by the General Assembly. We have been fighting for our pension rights during five long years and cannot afford any further procrastination. Many of our AFICS members have already passed their 60th and even 70th birth date, and their remaining future pension period has already been shortened on the average by 8 years. ..."

234. Following the general understandings reached at the July 1995 meeting in New York, the proposed agreement covered the situation of former participants with at least five years of contributory service, who transferred their accrued pension rights under the provisions of the existing Transfer Agreement with the former USSR. It covered only current Russian citizens, due to the firm position of the Government of the Russian Federation, maintained throughout the discussions, that it could only enter into agreements with respect to its own citizens. The proposed agreement and the protocol contained explicit references to further stages in negotiations concerning the former Fund participants who were not covered by this initial agreement.

235. In June 1996, the Secretary apprised the Permanent Missions to the United Nations of Ukraine and Belarus of these developments and transmitted copies of the proposed agreement. He also stated that the two Governments might wish to conclude similar agreements with the Fund, with the payments that would have to be remitted to the Fund being a matter for discussions between each of the two Governments and the Government of the Russian Federation. Nationals of any other countries which had been part of the former USSR could also be covered by similar agreements that might be concluded with each of the independent States concerned.

236. Under the proposed agreement, retirement benefits similar to those provided under the Fund's Regulations would be paid <u>prospectively</u> to the former participants covered, as from 1 January 1997 or age 60, whichever is later. While there would be cost-of-living adjustments analogous to those under the pension adjustment system, there would be no retroactive payments of any kind. Widows' and widowers' benefits would also be paid, but no children's benefits, and no periodic benefit could be commuted into a lump sum.

237. When a final list of the former Fund participants covered by the proposed agreement was available, the actuarial costs of implementing the proposed

agreement would be provided to the Russian Government; the proposed agreement would not enter into effect until the first of 10 annual instalment payments of the actuarial cost involved had been made to the Fund by the Government of the Russian Federation.

238. The proposed agreement is self-contained and makes it clear that the rights granted thereunder did not flow from the Regulations of the Fund, or from any obligation or responsibility on the part of the Fund; it gives to the Standing Committee the authority to resolve disputes relating to decisions taken by the Secretary in implementing the agreement. There was also provision in the proposed agreement for suspension of the payment of benefits if the annual instalments payable by the Government are delayed or cancelled. Before its entry into force, the proposed agreement would have to be formally approved by the Government of the Russian Federation, after its approval by the Board and after the concurrence of the General Assembly.

239. The Secretary informed the Board that, limited as it was, the proposed agreement was an important and significant development. He noted that, during the session of the Board in 1994, it had seemed unlikely that any meaningful progress would ever be made. The Secretary was of the strong view that the proposed agreement represented tangible evidence of the intention of the Government of the Russian Federation to find reasonable solutions for all outstanding issues, while taking into account the political, economic and social conditions prevailing in the country. Pensions were of considerable importance in the Russian Federation, with some 37 million citizens receiving pensions that were far lower than those of the Fund. These considerations had to be borne in mind when evaluating both the terms and scope of coverage of the proposed agreement.

240. The Board also had before it a communication from the Permanent Representative of Ukraine to the United Nations, which requested postponement of consideration of the proposed agreement since it did not cover former participants from the former Ukrainian SSR, which had been "an integral part of the former USSR". The full text of the communication is reproduced in annex VII of this report.

241. In addition, the Secretary had received representations from several former participants who were not covered by the proposed agreement, i.e., transferees with either less than five years of contributory service or who separated before 1981, including one addressed to the Board. The latter expressed opposition to the envisaged step-by-step approach and demanded a single comprehensive solution. As indicated earlier, the Government of the Russian Federation would only agree to a step-by-step approach.

242. The Board was informed that the majority of the former participants who were not covered by the proposed agreement (other than through indications that their situations would be the subject of future discussions) had less than five years of contributory service, and therefore had never vested a right to a periodic pension. In their cases, lump-sum payments had been made by the Fund either to the Government in Moscow under the three Transfer Agreements or, for the pre-1981 cases, to the Bank for Foreign Trade of the USSR, in the names of the former participants, on the basis of the payment instructions they had submitted to the Fund.

Discussion in the Board

243. During the discussion on this item, all members of the Board who spoke expressed appreciation of the efforts made by the Secretary and his colleagues in the Fund secretariat, which had resulted in the achievement of tangible progress towards a comprehensive solution to all the problems involved. Meaningful and accelerated progress was essential, particularly given the advanced age of many of the former participants concerned.

244. While a single comprehensive agreement would have been preferred, the Board recognized the importance of the breakthrough which the proposed agreement signalled towards attaining the objective of resolving the claims of all the former participants concerned. It therefore agreed to approve the step-by-step approach, noting that the need to pursue other steps was expressly recognized in both the proposed agreement and the accompanying protocol. In this connection, Board members expressed the hope that the General Assembly would address, in its resolution on the United Nations pension system, the importance of taking further steps in respect of those former participants who were not covered by the first proposed agreement. The representative of FAFICS stressed that the proposed agreement was the best that could be obtained at this stage, and noted that the Board had agreed earlier to the step-by-step approach. He believed that if progress were delayed, many of those affected would likely not live long enough to receive any benefits from the Fund. In connection with the implementation of the proposed agreement, the Secretary was requested to provide the preliminary list of "transferees" to the member organizations of the Fund, in order to assist in the "identification process".

245. In the view of the Board, the proposed agreement would not compromise the rights of the other former participants to press claims before the appropriate national courts, alleging non-fulfilment of legal obligations due to them under national law, as had been asserted in the representations made by some of those who oppose the proposed agreement.

246. The Board therefore approved the proposed agreement set out in annex VI and decided to seek the concurrence of the General Assembly, in the context of article 13 of the Fund's Regulations concerning Transfer Agreements. At the same time, the Board decided to convey to the Assembly the importance it attached to similar agreements being reached with the other Member States whose citizens transferred their pension entitlements under any of the three Transfer Agreements concerned. The Board recognized that financial arrangements with regard to the actuarial costs of such agreements should be pursued further by the States concerned. The Board asked the Secretary to continue his efforts to achieve a comprehensive solution relating to the claims of those former participants from the countries concerned who were not covered by the proposed agreement, including those who separated before the three Transfer Agreements entered into effect (i.e., before 1981), as well as those who transferred their pension rights but had had less than five years of contributory service when they separated.

IX. OTHER MATTERS

A. Procedure for determining final average remuneration

247. In 1994, at the request of the participants' representatives, the Board had reviewed the procedure for determining final average remuneration (FAR), particularly in respect of situations where the local currency depreciates significantly in relation to the dollar, and reported thereon to the General Assembly. 13/ In the absence of a consensus for changing the current arrangements for determining FAR, the Board had requested the Secretary to prepare a further study on this matter for the 1996 session, taking into account the proposals put forward during the discussions.

248. The Board examined an updated analysis of the impact of currency fluctuations on General Service pensionable remuneration and FAR levels, as defined in the Fund's Regulations. The data related to exchange rates and FAR levels for G-5, step 10, staff members at the seven headquarters duty stations and at six other duty stations. On the occasion of the 1994 review, a participants' representative had suggested that FAR might be calculated as the average of the highest 36 months of pensionable remuneration over the entire career of the participant. Since the length of the careers of participants will vary, the Secretary in his further study compared the results of FARs based on 20 years with those based on 10 years, to obtain an indication of the impact of using a longer period. With the exception of New Delhi, for the duty stations examined there was very little to no difference between the 10-year and the 20-year-based FARs. In the case of New Delhi, the higher results of the 20-year-based FAR were traceable to the period during the years 1978 through 1983, when the rupee had a stronger value vis-à-vis the United States dollar. During the subsequent weakening of the rupee against the dollar, the gross pensionable salaries in rupees increased considerably, but not to the extent of fully offsetting the impact of the weaker rupee on the dollar pensionable remuneration.

249. During the discussion in the Board, the participants' representatives stated that General Service participants at field duty stations in Africa, Asia and Latin America had been trying for years to have the inequity experienced in soft-currency/high-inflation duty stations addressed. In their view, the Fund benefited whenever a General Service participant contributed according to higher pensionable remuneration levels during periods which were then not taken into account in determining FAR. While they recognized that under a defined benefits scheme the amount of contributions paid did not serve to determine the level of the pension benefit, the participants' representatives stated that it was not acceptable to have situations where the Fund benefited at the expense of the lower paid staff members. Accordingly, they proposed an alternative to the current procedure for determining FAR, under which FAR would be calculated as the higher of:

(a) FAR based on the best 36 months of pensionable remuneration during the last five years of contributory service (current system);

(b) FAR based on the average mean of (i) the best 36 months of pensionable remuneration during the last five years of contributory service (current system), and (ii) the career average.

The observer from FICSA supported the views expressed by the participants' representatives.

250. The representatives of the executive heads and of the governing bodies indicated that they did not favour changing the current arrangements for determining FAR.

251. After an exchange of views as to whether this issue merited further study, the Board agreed to a proposal by the United Nations Staff Pension Committee that the Committee undertake an examination of the issue, and that the Board revert to the matter in 1998 on the basis of a report by the United Nations Staff Pension Committee.

B. Suspension of benefits in cases of re-employment in a member organization of the Fund

252. During its resumed fiftieth session, on 7 June 1996, the General Assembly approved a decision (50/485) recommended by the Fifth Committee related to the "Extension of the provisions of paragraph 6 of General Assembly resolution 49/222 B relating to the employment of retirees by Conference Services". In paragraph (e) of that decision, the Assembly "invited the United Nations Joint Staff Pension Board to examine at its forty-seventh session in July 1996 the possibility of suspending pension benefits for periods of less than six months". Accordingly, this item was added to the agenda of the Board session.

253. The Board noted at the outset that, in the absence of detailed background information, the precise purpose and objectives of the General Assembly in taking the above decision were not entirely clear. If the underlying concern related to the control of "double-dipping" by retirees who did not re-enter the Fund, i.e., who received simultaneously both a pension from the Fund and a United Nations salary, article 40, paragraph (a), of the Fund's Regulations provided for suspension of the payment of a periodic benefit upon re-entry into Fund participation, in the following terms:

> "(a) If a former participant who is entitled to a retirement, early retirement or deferred retirement benefit under these Regulations again becomes a participant, entitlement to such benefit or to a benefit derived therefrom shall be suspended and no payment shall be made until he dies or is again separated."

254. Article 21, paragraph (a), of the Fund's Regulations governs eligibility for Fund participation:

> "(a) Every full-time member of the staff of each member organization shall, subject to article 51, become a participant in the Fund:
>
> (i) Upon commencing employment under an appointment for six months or longer or upon accepting such an appointment while in employment; or,
>
> (ii) Upon completing, in the same or more than one member organization, six months of service without an interruption of more than 30 days,
>
> whichever is earlier, provided that participation is not expressly excluded by the terms of his appointment."

255. Accordingly, under the Fund's Regulations currently in effect, payment of a periodic benefit is suspended under article 40 when (a) the former participant

again became a staff member commencing employment under an appointment for six months or longer, or (b) on completion of six months of service as a staff member, without an interruption of more than 30 days. In the circumstances, it was assumed that the Assembly wished the Board to consider possible alternative formulations for article 40 (a), without modifying the text of article 21 (a) concerning eligibility for entry into the Fund.

256. The Board noted that consideration could be given to a possible amendment of article 40 (a) which would provide for suspension of Fund benefits in cases where a contract had been awarded to a former participant, without either amending article 21 or affecting the former participant's right under article 40 to accrue an additional Fund entitlement based on a second period of creditable service. However, such an approach raised a number of complex questions: should the limit for effecting suspension of the pension be one of duration of assignment(s) (e.g., a contract for between three months and just less than six months), or one of the amount that can be earned (e.g., in a given year, not more than half the annual pension benefit); should it only relate to contracts as staff members or should it also cover payments received for services rendered as non-staff members (e.g. under special service agreements). Moreover, any limits expressed in terms of length of service or of linking remuneration to amounts received as pensions might not be fair or equitable to former participants with small pensions (whether due to few years of contributory service or to relatively low levels of pensionable remuneration, or both). Depending on their nature, limits could lead to situations where former participants would, after a certain period, be asked to work, in effect, for no remuneration.

257. The Board noted further that there were major administrative obstacles to the Fund "controlling" any system of re-employment of former participants, even under the current provisions. The Fund did not have access to the personnel records maintained by its member organizations. It was dependent upon the reporting of relevant data on staff members by their employing organizations. If the information was not provided, the Fund would have no means of knowing when a particular retiree had been re-employed and on what terms; many of the contracts issued to former participants were for a variety of short durations, i.e., often for less than three months.

258. Some members of the Board expressed concern that the Fund's Regulations, which applied to all of its member organizations, might be changed in a manner which would impose United Nations policy objectives and perspectives on the other member organizations. In his note to the Board, the Secretary had suggested that this concern might be met by amending article 40 in a manner which would place the responsibility for controlling "double-dipping" on the employing organization, rather than on the Fund. This would involve the addition of a paragraph to article 40 of the Fund's Regulations, stating that, notwithstanding the provisions of paragraph (a) of that article, whenever a former participant in receipt of a retirement or early retirement benefit was re-employed by a member organization, that organization might require him/her, as a condition of employment, to request the Fund to suspend temporarily, or otherwise limit, the payment of his/her periodic benefit. Such a provision would effectively deal with the perceived problem, while placing responsibility for enforcement of the measure on the employing organization. It would also (a) provide limited financial savings to the Fund, and (b) permit each member organization to fashion its own rules on the re-employment of former participants, taking into account its specific needs, as well as the level of remuneration to be offered and the amount of the pension benefit in payment to the former participant concerned. The retiree would have to consent to the

temporary suspension of his/her periodic pension benefit from the Fund, as a condition for re-employment, by signing a contract of appointment that would include the clause in question.

259. The representatives of some governing bodies expressed concern that, in certain member organizations of the Fund, there were continuing abuses in the re-employment of retirees. They therefore considered that further study of the possible amendment of article 40 mentioned in the preceding paragraph was warranted. A number of other speakers, however, stated that the problem could more appropriately be dealt with through the personnel policies of individual member organizations, rather than through an amendment of the Fund's Regulations. Moreover, care would have to be exercised that measures taken in the context of pension arrangements did not require modifications of the conditions of service and terms of employment established under the Staff Rules applicable to short-term staff.

260. The representative of the Federation of Associations of Former International Civil Servants (FAFICS) noted that the Pension Fund had been invited only to consider the possibility of suspending pension benefits for periods of less than six months. In the view of FAFICS, the Board should inform the United Nations General Assembly that:

(a) Since the purpose and objectives for adopting the decision were not clear, the Board was unable at this time to formulate specific proposals;

(b) Elimination of the six-month waiting period for all appointments could result in increased costs for the United Nations and other organizations and could also give rise to administrative complications if, as envisaged, the elimination of the six-month waiting period were to be applied only to United Nations retirees; and

(c) The Board should defer action on the request until such time as the General Assembly had considered and acted upon the report it had requested the Secretary-General to prepare setting out the United Nations policy on the use of retirees.

261. The Board concluded that further consideration of the issue of a possible amendment of article 40 (a) of the Fund's Regulations should be deferred, pending the General Assembly's consideration and action on the report which it had requested the Secretary-General to submit to the Assembly at its fifty-first session on the question of employment of retirees by the United Nations.

C. Entitlement to survivor's benefits for spouses and former spouses

262. At its meeting in July 1995, the Standing Committee decided, at the request of the FAO Staff Pension Committee, to include this item in the agenda of the 1996 Board session. This issue, under various headings, had frequently been on the Board's agenda between 1978 and 1991, without agreement being reached to recommend to the General Assembly any modification of the present provisions in articles 34 (a) and 35 of the Fund's Regulations, which read as follows:

Article 34 (a)

"A widow's benefit shall, ... be payable to the surviving female spouse of a participant who was entitled to a retirement, early retirement, deferred retirement or disability benefit at the date of his death, or who died in service, if she was married to him at the date of his death in service or, if he was separated prior to his death, she was married to him at the date of separation and remained married to him until his death."

Article 35

"A widower's benefit, at the rates and under the conditions applicable in article 34 to a widow's benefit, shall be payable to the surviving male spouse of a participant."

263. Accordingly, under the Regulations, upon the death of a participant in service or when entitled to a retirement, early retirement or disability benefit, the surviving spouse is entitled to a benefit. Subject to minimum provisions, the surviving spouse's benefit is equal to half the benefit to which the participant was or would have been entitled at the time of his or her death. If there is more than one surviving spouse, the benefit is divided among them equally and the share of a spouse who dies or remarries is divided equally among the others.

264. A surviving spouse's benefit becomes payable only if the participant was married to that spouse both at the time of separation from service and at the time of death. Thus, no benefit is due to a divorced spouse, irrespective of whether the divorce took place before or after separation from service. Similarly, no benefit is due if the marriage took place after separation from service.

265. The entitlement to a surviving spouse's benefit ceases on remarriage. However, in that case the spouse becomes entitled to a one-time payment equal to twice the annual rate of the discontinued benefit (unless there is another spouse(s) who remain(s) entitled to a survivor's benefit).

266. On a number of occasions since 1978, representations have been made to the Board to provide, in hardship situations, a survivor's benefit to a former spouse. The General Assembly, in several of its resolutions dealing with the reports of the Board, also requested the Board to study various aspects of this issue. The Board, however, has not been able to identify any acceptable solutions and has repeatedly deferred the subject from one session to another.

267. When the Board last considered the matter in 1990, it reported to the General Assembly 14/ that:

"Most members of the Board shared the view of the Committee of Actuaries that matters relating to the distribution of marital property should be resolved through property settlements reached during divorce proceedings, without involving the Fund. They were not prepared to accept fundamental changes with regard to entitlements to survivors' benefits under the Regulations and stressed that the concepts of 'shared asset' and 'dependency' were not the criteria governing benefit entitlements from the Fund. Contributions to the Fund and benefits payable to participants were determined independently of the participant's marital status or his or her potential beneficiaries."

268. In the absence of a consensus for making changes, the Board concluded at that time:

> "(a) As the problem of financial obligations to divorced spouses in most cases involved serving staff rather than retired staff, the member organizations should be invited and encouraged to address it, both individually and in CCAQ;
>
> "(b) Amendments of articles 34 and 35 of the Regulations should not be considered until such time as the organizations will have established a framework for action by the Board ..."

269. The two principal substantive issues have remained as follows:

(a) Whether a spouse divorced from a participant, currently excluded by the Regulations from a contingent surviving spouse's benefit, should be eligible to receive one in certain circumstances; and

(b) Whether a spouse who marries a former Fund participant after separation, should be entitled to a potential surviving spouse's benefit and, if so, under what circumstances (e.g., only after X years of marriage, to avoid death-bed arrangements).

There are also a number of related issues concerning, inter alia, the confidentiality of information on Fund entitlements, the Fund's immunity from the jurisdiction of national courts and the "remarriage penalty" for widows or widowers who remarry (i.e., the cessation of their periodic benefit).

Divorced spouses

270. In his note to the July 1996 session of the Board, the Secretary recalled that, in the past, discussions in the Board regarding concepts of rights, equity and fairness in relation to issues arising from the dissolution of marriages had led to many practical problems because of the diverse elements at play in each particular case. Every marriage/divorce had its own particular financial framework and context, which made it extremely difficult to generalize. For example, in many instances, both spouses worked and might have separate pension coverage. Also, in many, if not most, divorces in some countries, the fact that divorce would affect a spouse's contingent pension benefits was recognized in the divorce settlement, and compensation was granted for such contingent loss. In some cases the Fund participant and/or the divorced spouse later remarried. In other cases the divorced spouse did not remarry, but might not have received any benefits from the divorce settlement or court order, or portions of what was due to the divorced spouse might have remained unpaid. The divorce may have taken place shortly before the death of the former Fund participant or many years earlier. There were also difficulties related to the legal recognition of marriages and/or divorces in different countries; reliance on alimony payments as the main, or sole, basis for providing a benefit to a divorced spouse may not have universal relevance. Moreover, neither the Fund, nor its member organizations, kept records on former spouses.

271. The Secretary also observed that it was difficult in the international multi-cultural context in which the Fund operated to draw compelling conclusions from the experience or practice in any particular national jurisdiction. In any case, there was no uniformity; some jurisdictions provided pension coverage for surviving divorced spouses, some did not, and some made it optional (at a cost) at the election of the participant. As for other international organizations,

the most relevant examples were the World Bank, the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB). While the IMF and IDB pension plans offered no benefits to divorced spouses, the World Bank in 1995 introduced an amendment to its Staff Retirement Plan "to permit payments from the Plan for the support of divorced or legally separated spouses of retired Plan participants". The amendment provided for payments to be made in the face of a legal obligation to provide support to a former spouse or pursuant to a final decree of a court of competent jurisdiction. According to the Bank, "by allowing for the direction of pension payments to former spouses, the amendment changes only the distribution of payments of existing benefits, it does not create any new benefits, nor a fiduciary obligation to a spouse or former spouse, nor makes the spouse or former spouse a beneficiary of the Plan".

Marriage after separation

272. With respect to marriage after separation, the World Bank, IMF and IDB Plans permitted a retiree to purchase (by reduction in the principal benefit) a surviving spouse's benefit. The Plans also provided for a waiting period before the purchased benefit election became legally effective, to prevent selections detrimental actuarially to the Plan, i.e., "death-bed marriages".

Confidentiality

273. The Secretary noted that a considerable portion of the problems and misunderstandings with respect to the enforcement of alimony rights or divorce settlements was attributed to the immunity of the Fund, as a subsidiary organ of the General Assembly, from the jurisdiction of national courts, combined with the strict requirement of confidentiality under rule B.4 of the Fund's Administrative Rules, which states that: "Information provided by or in respect of a participant or beneficiary under the Regulations or these Rules shall not be disclosed without his written consent or authorization". While the question of immunity was a delicate one, it reflected the recognized legal position that the Fund was not subject to any national laws. However, serious problems arose in national courts when a Fund participant or beneficiary was sued by a former spouse for the alleged non-fulfilment of alimony or divorce settlement obligations. Without accurate and precise information as to the relevant Fund entitlements, national courts may find themselves hampered in their attempts to do justice. Under rule B.4, the Fund is not permitted to provide information on entitlements, even to a court of law, without prior written authorization by the participant or beneficiary concerned; if that person is the defendant in a legal action, he or she may not always be disposed to cooperate by authorizing the release of such information.

Remarriage penalty

274. As a separate matter, the Board also considered the "remarriage penalty" in articles 34 and 35 for a widow or widower who remarries. It was noted that the World Bank, IMF and IDB Plans no longer had such a "remarriage penalty". In addition, its elimination would have no significant actuarial consequences as the number of remarriages reported to the Fund has traditionally been very low. The Secretary pointed out such a change would also free the Fund secretariat from the extremely difficult task of verifying that widows and widowers had not in fact remarried (see paras. 118-122 above).

Views of the Committee of Actuaries

275. The Committee of Actuaries considered the Secretary's note at its June 1996 meeting. Its conclusions are summarized below:

(a) Extension of survivor's benefits to divorced spouses: the Committee reaffirmed its long-standing position that such a change would not be desirable, given the serious administrative, legal and technical complications involved. While noting that arrangements for providing potential benefits to surviving divorced spouses through actuarial reductions in the benefits of retirees were possible without cost falling upon the Fund, the Committee considered that the matter should be left for resolution through divorce settlements or national courts; it was therefore not in favour of providing any benefits directly from the Fund to divorced spouses of former participants.

(b) Marriage after separation: in principle, the Committee was not opposed to permitting a retiree to purchase a potential survivor's benefit for a spouse acquired after separation from service, either by a reduction of the main pensioner's benefit or by a lump-sum payment. It was, however, noted that safeguards would be necessary to prevent abuse.

(c) Confidentiality of pension information: the Committee considered it reasonable that the Fund should provide pension information when requested to do so by an appropriate national court, after duly apprising the retiree concerned of the request. This would facilitate equitable settlement of divorce cases by providing full financial information as to pensions to the national courts dealing with all other aspects of the divorce proceedings.

(d) Remarriage of widows or widowers: the Committee believed that, prospectively, pensions payable to widows and widowers should not be terminated upon remarriage. Some members believed that the change should be applied for all cases, while others considered that it should affect only remarriages after a certain age (e.g., 60 or 65). Since the number of reported remarriages was extremely small, there would be no significant actuarial implications in either case. It was also noted that, in these circumstances, the Fund would no longer be charged with the difficult task of verifying that widows and widowers had not in fact remarried.

Discussion in the Board

276. All participants who spoke on the item welcomed the fact that the Board was again dealing with this question and hoped that it could move prudently towards a more contemporary approach to the various issues involved. However, as in the past, views differed in the Board on changes, if any, that might be made.

277. A number of participants' representatives set out a possible framework for the revision of articles 34 and 35 of the Fund's Regulations, providing for surviving spouse's benefits in certain cases of marriage after separation from service, and for divorced spouses. They expressed the hope that this scheme could be taken into account by the Secretary in future studies, possibly for the Standing Committee at its 1997 meeting. In their view, care should be taken not to confuse a payment facility such as for honouring support orders, as the World Bank had adopted, and the provision of a benefit in favour of divorced spouses. They also indicated that actuarially "neutral" solutions, which were not based on the purchase of coverage, could be found. On the other hand, they did not believe that the "remarriage penalty" should be lifted at this time, as that could give rise to actuarial implications. Several participants'

representatives remained reluctant to support any easing of the confidentiality rule, given the many different legal regimes and procedures in the various Member States.

278. The representative of FAFICS stated that it was time for the Board to adopt contemporary policies in this regard. So far as the various sub-issues were concerned, FAFICS would support the adoption of a World Bank-style payment facility. FAFICS also stated that the "remarriage penalty" should be removed. As for the confidentiality provision in the Fund's Administrative Rules, FAFICS agreed with its relaxation in response to court decrees, providing it was limited to divorce actions or family court proceedings. FAFICS also favoured further study of (a) providing a surviving spouse's benefit in case of marriage or remarriage after separation, which may have cost implications but would eliminate a certain element of discrimination, and (b) the possible establishment of a separate benefit in favour of divorced spouses who had not remarried, where there was an obligation under an agreement or court order to pay support.

279. The UNIDO Staff Pension Committee agreed that the World Bank-type approach of a payment facility should be studied, but could not accept some of the other proposals for changing the Fund's Regulations and Rules. The FAO Staff Pension Committee was in favour of a rapid review of the provisions of articles 34 and 35 of the Fund's Regulations, aimed at: the establishment of a World Bank-type payment facility; entitlement, under certain conditions, to survivors' benefits in cases of marriage after separation; removal of the "remarriage penalty" for surviving spouses; and amendment of administrative rule B.4.

280. The representatives of the executive heads agreed that the various issues should be reviewed and carefully analysed before any action was taken. While a large majority of the representatives of the executive heads favoured the establishment of a World Bank-type payment facility, there was no majority in favour of the creation of any new benefits. The representatives of the executive heads believed that the application of administrative rule B.4 on confidentiality should be modified, but some would limit any change to permitting only disclosure of the beneficiary's address and the amount of the pension benefit. Some representatives of the executive heads considered that the Standing Committee should review concrete proposals by the Secretary at its meeting in 1997, in respect of easing the confidentiality rule and establishing a World Bank-type facility.

281. Several speakers stated that, should administrative rule B.4 be amended, it should be made clear that such action would be intended as a form of cooperation with national judicial authorities and would not constitute a waiver of jurisdictional immunity.

282. The representatives of the governing bodies also agreed that administrative rule B.4 might be modified, but limited to the context of divorce actions. They also believed that the establishment of a World Bank-type payment facility could be pursued in the Standing Committee, but that a further study would be required by the Fund's secretariat. The other issues, and particularly the question of establishing new benefits which might have actuarial consequences, should await further study at the next Board session, in the light of developments.

Conclusions

283. After extensive discussion of the differing views, the Board took the following positions:

Confidentiality: with the exception of one member, the Board agreed in principle that the Standing Committee should consider at its 1997 meeting a modification of administrative rule B.4, limited both as to the information which may be communicated and the context in which the request for information was submitted to the Fund.

World Bank-type facility for family support orders: the Board found this idea of interest and requested the Standing Committee to pursue it at its 1997 meeting, in the light of a further study by the Secretary, particularly in the context of the Fund's international scope and the jurisdictional problems which might flow therefrom, and of any additional administrative costs.

Revision of articles 34 and 35 of the Regulations: the Board was not ready to pursue the more far-reaching issues, which in all likelihood would give rise to actuarial costs. The Board could reconsider them at its next session, depending on input and suggestions from the staff pension committees and FAFICS.

D. Possible withdrawal of ICITO/GATT from membership in the Fund

284. Article 16 of the Fund's Regulations provides as follows:

"(a) Membership in the Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Board, following application for termination by a member organization or continued default by a member organization in its obligations under these Regulations.

(b) In the event of such termination, a proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund on such date, pursuant to an arrangement mutually agreed between such organization and the Board.

(c) The amount of the proportionate share shall be determined by the Board after an actuarial valuation of the assets and liabilities of the Fund on the date of termination, provided that no part of the assets which are in excess of the liabilities shall be included in such share."

These provisions have so far not been utilized, as no member organization has ever withdrawn from the Fund.

285. During its meeting in 1995, the Committee of Actuaries was informed that the Staff Pension Committee of ICITO/GATT had requested the inclusion of an item in the agenda for the 177th meeting of the Standing Committee entitled "Possible withdrawal of ICITO/GATT from the United Nations Joint Staff Pension Fund".

286. In considering this issue, the Committee of Actuaries noted that:

"if the matter were to be pursued, it needed guidance from the Board with respect to a number of inherent policy considerations which would determine the methodology to be used from among a number of alternatives. It stressed that the methodology eventually adopted would serve as a precedent

for any future requests for withdrawal under article 16 that may be received from other member organizations."

287. During the discussion by the Standing Committee, the Rapporteur of the Committee of Actuaries raised a series of questions, requested clarification about the meaning of various terms in article 16 of the Regulations of the Fund and expressed general policy concerns related to withdrawal from a pension fund by a constituent organization or group. The Consulting Actuary noted that, while there had not yet been a formal application for withdrawal, ICITO/GATT had requested an indicative amount on the basis of which the organization could take further decisions on whether to withdraw from or remain a member of the Fund. The Consulting Actuary indicated that he could produce estimated amounts on the basis of: (a) the methodology which had been proposed by the Consulting Actuary of ICITO/GATT and (b) a termination liability method which would show a significantly lower result.

288. The Standing Committee decided to accede to the request of ICITO/GATT to provide it with an indicative range of amounts on the clear understanding that such figures would not constitute a determination by the Board under article 16 of the Fund's Regulations, and would not bind the Board or ICITO/GATT as to either the indicative amounts or the methodology or principles involved in their determination. The calculations by the Consulting Actuary produced an indicative range of amounts from $50 million to $80 million. These results, together with explanations of the methodologies used, were transmitted to ICITO/GATT in September 1995.

289. In view of the numerous substantive issues that would necessarily arise, including actuarial, financial, legal and policy concerns and considerations, the Secretary of the Board requested the Consulting Actuary and the Committee of Actuaries to examine further the actuarial and other implications involved, so as to assist the Board in addressing this matter at its 1996 session.

290. The Committee of Actuaries reviewed a paper by the Consulting Actuary at its June 1996 meeting. In addition to the paper by the Consulting Actuary and the views of the Committee of Actuaries thereon, the Board also had before it a note by the ICITO/GATT Staff Pension Committee which contained information on the consideration by the General Council of the World Trade Organization of ICITO/GATT's possible withdrawal from the Fund, as well as a note by the Consulting Actuary for ICITO/GATT, presented by the ICITO/GATT Staff Pension Committee, containing his views on the methodology to be employed in determining a "proportionate share" under article 16.

291. The note by the Fund's Consulting Actuary analysed the general principles involved in determining the proportionate share of assets of the Fund payable under article 16 of the Fund's Regulations in the event of withdrawal of membership from the Fund. It noted that the termination of an organization's membership led to events that were quite different from those considered in the ongoing actuarial valuations of the Fund and that, as a result, the use of more conservative actuarial methods and assumptions in determining the "proportionate share" should not be ruled out. The Consulting Actuary noted further that, although the amount that might be payable by the Fund under article 16 in the ICITO/GATT case would be relatively small, any decisions reached by the Board would almost certainly create a precedent with far-reaching financial implications if one or more larger member organizations were to withdraw from the Fund at a future date.

292. The Rapporteur of the Committee of Actuaries noted that the termination of a member organization was equivalent to a sale of the liabilities attributable to the accrued Fund benefits for the ICITO/GATT participants who would be transferring to the separate pension scheme under consideration for the World Trade Organization. A particular methodology for determining the amount payable to a terminating member organization had consistently been endorsed by the Committee of Actuaries and the Consulting Actuary since the early 1980s, whenever the question of the possible termination of a member organization had arisen; under this methodology, sufficient assets would first be set aside to cover prudently the liabilities for all pensioners and other non-active participants and the remaining assets would then be apportioned between the terminating organization and the Fund on the basis of their respective accrued liabilities for active participants. The Rapporteur of the Committee of Actuaries noted that, in performing the calculation to set aside sufficient assets for pensioners who would remain the responsibility of the Fund, it was not appropriate to use the valuation real rate of return, currently 3.5 per cent per annum; the appropriate return would be related to the market yield, as of the date of termination, on medium to long-term government bonds and anticipated, if appropriate, inflation over the duration of such investments.

293. The representative for ICITO/GATT participants requested the Board, on behalf of the ICITO/GATT Staff Pension Committee, to reach a decision on the methodology to be used to calculate the share of assets payable to ICITO/GATT if it were to withdraw. He noted with satisfaction that the Committee of Actuaries had discussed this matter. It was expected that the General Council of the World Trade Organization would decide in September 1996 whether or not to establish a separate pension scheme for that organization. In that event, the World Trade Organization may wish to file an application for withdrawal of ICITO/GATT from the Fund; if that were to occur, the Pension Board would be invited to meet at Geneva for a special session to deal with issues related to the application for withdrawal.

294. The Consulting Actuary for ICITO/GATT, speaking exceptionally at the specific invitation of the Board, indicated that the approach preferred by the Committee of Actuaries for purposes of determining the amount payable to a terminating member organization was generally acceptable. However, he questioned the need to adopt a more conservative real rate of return assumption for purposes of valuing the pensioners' liability. He believed that the actuarial valuation assumption of a 3.5 per cent real rate of return was sufficiently prudent and that the use of a lower real rate of return assumption would seem to punish ICITO/GATT. In his view, the lowest acceptable assumption would be a real rate of return of 3 per cent.

Discussion in the Board

295. The representatives of the executive heads noted that the discussion in the Board was aimed at reducing the number of methodological alternatives, so as to provide ICITO/GATT with a narrower range of indicative amounts. They further noted that there remained a number of legal issues to be resolved before more definitive indicative amounts could be produced. The representatives of the executive heads favoured the methodologies endorsed by the Committee of Actuaries. Commenting on a statement by the Fund's Consulting Actuary to the effect that more conservative assumptions were warranted on plan termination to provide a margin of safety for future adverse experience, it was noted that the pension fund of the League of Nations, which the International Labour Organization administered, had run into a deficit after the transfer of its assets to ILO.

296. The representative of FAFICS stated that FAFICS had a direct interest in this matter on behalf of the Fund's 37,000 beneficiaries and an indirect interest on behalf of the some 64,000 active participants. FAFICS believed that, based on the past experience of some of its members in other pension funds, the withdrawal of a constituent group of a pension fund was a serious matter; while the World Trade Organization could look after its interest, FAFICS was concerned with ICITO/GATT pensions and other pensions. FAFICS was of the firm view that the Fund must use conservative assumptions in order to protect pensioners before agreeing to the transfer of money from the Fund to a terminating organization. FAFICS endorsed a method for determining the amount payable to ICITO/GATT based on the termination liability for ICITO/GATT active participants, but without provision for adjustments under the two-track adjustment system. The Association also suggested that the "proportionate share" should be based on a conservative assumption of the future real rate of return, that is, 2 per cent. FAFICS was further of the view that ICITO/GATT's active participants should be offered the option to take a deferred pension from the Fund, that the Pension Board should be provided an opportunity to examine the pension plan proposed for the World Trade Organization, and that all costs associated with any ICITO/GATT termination should be borne by ICITO/GATT.

297. Representatives of the United Nations participants indicated their interest in the statements that had been made by FAFICS, and stated that the past experience and problems related to the transfer of funds to ILO to meet obligations under the pension plan of the former League of Nations should be borne in mind.

298. Several speakers referred to the complexity of this issue and the long-term financial implications for the Fund. It was noted that, formally, the Board was in the same position as the Standing Committee had been last year. While the Consulting Actuary and the Standing Committee had made substantial progress in narrowing some issues, and the Committee of Actuaries had expressed some methodological preferences, a number of key elements could only be addressed following formal application for withdrawal from the Fund by ICITO/GATT.

299. The member speaking on behalf of the governing bodies recalled that, at the Standing Committee meeting held in the previous year, ICITO/GATT had requested an indicative range of the possible transfer amount and that this had been provided. Since then, ICITO/GATT had not addressed a formal request to the Board to reach agreement at its current session on the methodologies and assumptions to be used under article 16. It would therefore be imprudent for the Board to reach any conclusions at this stage on the preliminary views of the Committee of Actuaries, including the issues addressed in the Consulting Actuary's note. In his view, there were considerable risks of the Board setting precedents with implications for other central elements of the United Nations pension system, including the pension adjustment system.

300. The Board concluded that it has not been presented as yet with a formal request from ICITO/GATT for withdrawal from the Fund. The Consulting Actuary and the Committee of Actuaries had addressed a number of substantive issues raised by ICITO/GATT and had indicated certain alternatives. Differing views had been expressed by representatives in the Board and, thus, the Board was not able to take a particular position on the matter at this session. The Board took note of all the work that had been performed which, although not resulting in the narrowing of the range of possibilities and alternatives sought by ICITO/GATT, did provide ICITO/GATT with considerable additional information. When a formal request was received from ICITO/GATT to withdraw from the Fund, the Board would respond in a definitive manner. It was agreed that, just as any

other organization in that position, ICITO/GATT would have to meet the costs that would be incurred by the Fund in responding to any formal request for withdrawal from the Fund, including the costs of any special session of the Board.

E. Provisional applications for admission to membership in the Fund of the International Tribunal for the Law of the Sea and the International Seabed Authority

International Tribunal for the Law of the Sea

301. The Board considered a provisional application for membership in the Fund from the International Tribunal for the Law of the Sea, a new international intergovernmental organization with headquarters in Hamburg, Germany. The Tribunal, whose current membership consists of 85 States Parties, was created by the 1982 United Nations Convention on the Law of the Sea, which entered into force on 16 November 1994. It is an independent institution which is expected to enter into a relationship agreement with the United Nations at a later stage.

302. The requirements for membership in the Fund are set out in article 3, paragraphs (b) and (c), of the Regulations, which provide that:

> "(b) Membership in the Fund shall be open to the specialized agencies referred to in article 57, paragraph 2, of the Charter of the United Nations and to any other international, intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.
>
> (c) Admission to membership in the Fund shall be by decision of the General Assembly, upon the affirmative recommendation of the Board, after acceptance by the organization concerned of these Regulations and agreement reached with the Board as to the conditions which shall govern its admission."

303. With respect to these requirements, the States Parties at their Fourth Meeting, held in New York from 4 to 8 March 1996, decided to apply the Financial Regulations and Staff Regulations of the United Nations, mutatis mutandis, pending adoption of the Tribunal's own draft financial and staff regulations. It is expected that, when eventually adopted, those regulations would be fully compatible with the United Nations common system of salaries, allowances and other conditions of service.

304. As the Tribunal is clearly an "international intergovernmental organization", the Board decided to recommend to the General Assembly that it give conditional approval to its application for membership, as from a date yet to be established, following confirmation by the Fund and ICSC secretariats at that time, that the Tribunal "participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies".

International Seabed Authority

305. The Board had before it a letter to the Secretary from the Secretary-General of the International Seabed Authority, dated 23 April 1996, informing the Fund of the Authority's interest in becoming a member organization of the Fund as from 1 January 1998. Since the Board was not scheduled to meet in 1997,

it decided to delegate to the Standing Committee, when meeting in lieu of the Board in 1997, consideration of a possible application for membership that the International Seabed Authority might submit, as well as consideration of any other similar applications for membership in the Fund. The Board noted that, if a favourable recommendation were made by the Standing Committee with respect to the application for membership by the International Seabed Authority, an item would have to be added to the agenda of the fifty-second session of the General Assembly, as had been done in relation to the application for membership by the World Tourism Organization in 1995.

F. Administrative expenses

Introduction

306. Expenses incurred by the Board in the administration of the Fund - principally the cost of its central secretariat located in New York and Geneva, and the expenses of managing its investments - are met by the Fund. Article 15 of the Regulations of the Fund provides that:

> "(a) Expenses incurred by the Board in the administration of these Regulations shall be met by the Fund.
>
> "(b) Biennial estimates of the expenses to be incurred under (a) above shall be submitted to the General Assembly for approval during the year immediately preceding the biennium to which the said estimates relate. Supplementary estimates may similarly be submitted in the first and/or the second year of the biennium to which the budget relates.
>
> "(c) Expenses incurred in the administration of these Regulations by a member organization shall be met by that organization."

307. The administrative expenses of the Fund have in the past been separated into two categories:

(a) Administrative costs, which include the cost of salaries, related staff costs and operational costs of the central secretariat of the Fund, the fees charged by the Consulting Actuary to the Fund for actuarial valuations and other services and costs related to meetings of the Committee of Actuaries; and

(b) Investment costs, which cover fees payable to the advisers and custodians for the investment portfolio, the cost of salaries, related staff costs and operational costs of the Investment Management Service of the Fund and costs related to meetings of the Investments Committee.

308. In considering resources requested last year for the new internal audit function for the Fund (see sect. IV, paras. 113-117) and the proposed allocation of the costs related thereto as between administrative costs and investment costs, ACABQ expressed the view that "all internal audit costs should be reflected in the administrative budget of the Fund under a separate provision for internal audit, that is, separately from those costs budgeted for the administrative costs of the secretariat of the Fund and from those relating to the Investment Management Service". 15/ Accordingly, a third category of administrative expenses, namely audit costs, has been established covering both internal and external audit costs; the tables in annex VIII reflect this change in presenting the proposed revised estimates for the biennium 1996-1997.

309. The expenses of individual member organizations - which include those of local staff pension committee secretariats, the travel of their representatives from the three constituent groups to meetings of the Board and its organs, and the costs of associated services - are not part of the expenses of administering the Fund. As provided in article 15 (c) of the Regulations, such expenses are borne by the budgets of the member organizations directly.

310. Since the central secretariat of the Fund also serves as the local secretariat of the United Nation Staff Pension Committee, the United Nations shares in the expenses of the central secretariat. In accordance with the long-standing apportionment formula agreed to by the Board and the General Assembly, the United Nations share includes one third of the total cost of established posts, related common staff costs and overtime, as well as a contribution to the identifiable costs of communications. Section I of the United Nations regular budget for the biennium 1996-1997, as approved by the General Assembly at its fiftieth session, includes $2,978,000 as the United Nations share of the administrative costs of the central secretariat, and $1,822,500 as the United Nations Development Programme/United Nations Children's Fund share, which is reflected in the United Nations budget as extrabudgetary resources. The total amount available to the central secretariat of the Fund from these sources was therefore in the order of $4,800,500, based on the Fund's staffing table for the 1994-1995 biennium. This amount will be revised at the current session of the Assembly on the basis of the staffing table for the Fund's secretariat for the 1996-1997 biennium and other recosting factors.

311. In resolution 50/216, section VII, the General Assembly approved, inter alia, expenses, chargeable directly to the Fund, totalling $40,208,300 net for the biennium 1996-1997 for the administration of the Fund. This amount comprised $13,502,600 for administrative costs, $26,263,500 for investment costs and $442,200 for audit costs. (An additional amount of $102,400 for internal audit costs is to be included in section I of the United Nations regular budget.) It reflected a reduction of $393,400 relating to the remanding of some of the staffing proposals for the Investment Management Service (IMS) to the Board for further consideration.

312. The staffing proposals for IMS and other requests for supplementary resources are dealt with in paragraphs 313 to 337 below.

Staffing for the Investment Management Service

313. In its budget submission last year the Standing Committee presented to the General Assembly (see A/50/312, paras. 19, 20 and 71-73) the proposals of the representative of the Secretary-General for the investments of the Fund and the Chief of IMS for additional staff deemed necessary to manage the investments more efficiently, given the continuous increase in the value of the Fund's assets, the complexity of the investment process and the establishment of new custodial arrangements. The proposals consisted of the reclassification of the post of the Chief of IMS from the D-1 to the D-2 level; the reclassification of one P-3 post to the P-4 level; the establishment of two new posts: a D-1 post of Deputy Chief, to provide better management of IMS, and one P-5 post; and the conversion of four temporary posts (1 P-4, 3 GS Other level) to established posts. The incumbents of the P-5 and P-4 posts would handle equity investments.

314. In the report of the Standing Committee to the General Assembly, it was stated that:

"... several members of the Standing Committee expressed concern with the proposed establishment of a grade equivalence between the position of the Chief of the Investment Management Service and that of the Secretary of the Board, considering that the latter serves as the Chief Executive Officer of the Fund under the provisions of article 7 of the Fund's Regulations. Recognizing that the proposed reclassification does not constitute an institutional reform, the Committee reaffirmed the role of the Secretary as the Chief Executive Officer of the Fund and, considering that the assets of the Fund were deposited and held on behalf of the participants and beneficiaries of the Fund, also reaffirmed that the Board retains important responsibilities as regards both the investment policies and transactions, as recognized in article 19 of the Regulations" (A/50/312, para. 25).

The Committee had also stressed the need to avoid a bifurcation in the operations of the Fund.

315. The Standing Committee concluded that it "was unable to take a position on the staffing arrangements proposed for the Investment Management Service, particularly as regards the reclassification of the post of the Chief of the Investment Management Service" (ibid., para. 26). It therefore requested the Secretary to submit to the General Assembly the budget proposals for the 1996-1997 biennium, as presented to the Standing Committee by the Secretary, including the results of the review that had been initiated by the representative of the Secretary-General as regards the staffing needs and structure of IMS.

316. ACABQ recommended to the General Assembly 16/ that, in view of the position taken by the Standing Committee, the staffing proposals for IMS, including the issue of the classification of the post of the Chief of IMS, be addressed at the Board's next regular session in 1996. However, the Advisory Committee recommended acceptance of the proposed reclassification of a P-3 post to the P-4 level, consistent with its position that reclassification between P-2 to P-5 can be effected by the Secretary-General, as well as the continuation, on an interim basis, of the four temporary assistance posts, pending the review of the IMS staffing requirements by the Board at its 1996 session.

317. At the Board session in July 1996, the representative of the Secretary-General for the investments of the Fund reiterated his request for additional staffing resources and the reclassification of the post of the Chief of IMS. He maintained that the increasing diversification of the investment of the Fund's assets and the complexities related thereto, as well as the size of the assets of the Fund (with more than 800 portfolio holdings), made it essential to have sufficient, and highly qualified, staff in IMS. He noted that the remuneration was not competitive with that offered outside for investment management positions; as a result, it was difficult to recruit and retain high-quality staff, as reflected in the large turnover of staff in IMS in recent years. He also noted that other funds of comparable size had almost five times the staffing resources of IMS; moreover, the total resources available for the Fund's investment management were much lower than those of other pension funds, such as those of the International Monetary Fund and the World Bank. The representative of the Secretary-General urged the Board to consider favourably his request for additional staffing resources, including the reclassification of the post of the Chief of IMS.

Request for additional resources for investment custodial fees

318. The additional resources ($590,000) requested for custodial fees are based on the contractual provisions governing the custodial fees and on the assumption that the market value of the Fund's investment portfolio will rise to $16 billion in 1996 and to $17 billion in 1997 (as compared with the preliminary estimates of $15 billion and $16 billion, respectively).

Request for additional resources under Administrative Costs

319. The additional resources ($463,000, at 1996 rates) requested under Administrative Costs relate mainly to the enhancement of the Fund's computer operations in conjunction with the shifting of the United Nations mainframe operations from the New York Computer Service (NYCS) to the International Computing Centre (ICC) in Geneva (see paras. 325-328 below). The additional resources, at 1996 rates, consist of: additional travel requirements ($63,000), equipment ($300,000), contractual services ($50,000), general operating expenses ($25,000) and other staff costs ($25,000).

320. The estimated additional requirements for travel ($63,000) cover (a) unanticipated travel costs related to the negotiations on problems arising from the interpretation and application of the Transfer Agreement between the former USSR and the Pension Fund, and (b) additional travel requirements for IMS staff to meet with ICC staff before and during the consolidation of mainframe data-processing services with ICC.

321. The resources requested for equipment ($300,000) relate to the development of a subsystem to be integrated with the ICC mainframe and consist of $200,000 for hardware costs, and $50,000 each for application development and operating software. The system would permit frequent (at least daily) downloading from the ICC mainframe of the latest general information on participants and beneficiaries, in particular the current status of all work cases in progress.

322. The resources requested for contractual services ($50,000) represent the estimated costs of consultant(s) needed to help develop the subsystem referred to in the preceding paragraph.

323. The amount requested for general operating expenses ($25,000) would be needed to meet additional telecommunications costs related to the use of the contingency system to transmit daily exchanges of data between ICC and UNJSPF/New York.

324. The remaining resources requested under other staff costs ($25,000) relate to additional training requirements in connection with the operation of the contingency system.

325. The decision taken by the United Nations to move its mainframe computer operations to ICC in Geneva made it necessary, in the absence of any viable alternatives at this stage, for the Fund to give priority attention to the transfer and consolidation of all its mainframe applications with ICC. This would require thorough testing of the operation through ICC of the Fund's PENSYS applications, which would be moved to ICC, and the Optical-Based Imaging System (OBIS), which would remain in New York. Substantial programmer resources would have to be diverted to the task of moving, within a very short period, every mainframe application programme to the ICC environment. The Fund would have to test response time, data integrity, telecommunications connectivity, and system integration with OBIS and the local area network (LAN) in New York, before

applications are disengaged from the NYCS system. As a result, inevitable delays were expected in the development of the new PENSYS applications which had been planned for the current biennium.

326. As for the longer term, prudence required that the Fund begin to assess its strategy for the future, as regards its operational needs, including computer facilities and computer systems development, taking into consideration the following: (a) the size of the Fund (over 100,000 participants and beneficiaries); (b) the growing payroll, expected to reach $1 billion per year in disbursements in the very near future; (c) the scope and complexity of the pension system; and (d) the volume of worldwide communications and transactions.

327. The recent experience underscored the pressing need for the Board to give serious consideration to the option of establishing the Fund's own computer facilities; the first steps in this direction were taken in 1992 when the Fund (a) purchased an AS/400 for the operation of OBIS, (b) established its own local area network and (c) equipped all staff with high-performance personal computers.

328. With respect to the longer-term issues, a concurrent effort would also be required to redress growing problems as regards office space; both the administration and investment operations were faced with an acute shortage of space to accommodate not only future staff growth, but also to respond to current needs. Any decision to expand the Fund's computer facility to include its own mainframe operations would also entail need for considerable additional space.

Discussion in the Board

329. During the discussion in the Board on the staffing of IMS, the representatives of each of the three constituent groups reiterated their appreciation for the quality of the management of the investments of the Fund, and expressed support for the request for additional posts. However, there was no consensus, either within or among the groups, for recommending the reclassification of the post of the Chief of IMS to the D-2 level, mainly for the reasons expressed in the Standing Committee last year (see para. 314 above).

330. The Board therefore decided to recommend that the General Assembly approve the establishment of two new posts at the P-5 level and the conversion of four temporary posts (one P-4, three General Service) to established posts (see para. 313 above). It also decided to request the additional resources related to the investment custodial fees (see para. 318 above).

331. The Board also decided that, at its next session, it would revert to consideration of the level of the post of Chief of IMS, in the light of an analysis of the responsibilities of the Secretary of the Board as Chief Executive Officer of the Fund for the administration of the Fund and those of the Secretary-General for the investment of the assets of the Fund, to be carried out and submitted to the Board jointly by the Secretary of the Board and the representative of the Secretary-General for the investments of the Fund, taking into account the views expressed by the members of the Board and of the Standing Committee.

332. As regards the administrative costs, the Board took note of the actions taken, or likely to be taken, by the United Nations Administration in order to respond to its budgetary constraints, particularly in respect of resources for accommodations and information technology and their impact on the Fund. It

approved the request for additional resources (see para. 319 above) for enhancement of the Fund's computer operations in conjunction with the shifting of the United Nations mainframe operations from the New York Computer Service (NYCS) to the International Computing Centre (ICC) in Geneva.

333. The Board therefore decided, pursuant to article 15 (b), to submit revised estimates for the biennium 1996-1997 amounting to $41,395,500, consisting of administrative costs of $13,979,000, investment costs of $26,974,300 (see annex VIII, table 1), and audit costs in the amount of $442,200. The increase of $1,187,200 over the revised estimates for the biennium approved last year consists of $710,800 for investment costs related to additional staffing costs ($120,800) and custodial fees ($590,000); and additional resources under administrative costs ($476,400) related, for the most part, to the enhancement of the Fund's computer operations in conjunction with the shifting of the Fund's mainframe applications from NYCS to ICC in Geneva.

334. As to long-term support arrangements for the Fund's secretariat, the Board requested the Secretary, in cooperation with the United Nations Administration, to prepare (a) a study of the short-term logistical requirements of the Fund secretariat and (b) a concept paper describing the present nature of the administrative arrangements between the Fund and the United Nations and other member organizations of the Fund, together with an analysis of their adequacy for the Fund's operations over the next 10 years or longer; the paper should also outline proposed areas requiring studies to determine possible needed reform(s) in the administrative arrangements.

335. The Board requested that the study on the short-term logistical requirements of the Fund secretariat be presented to the Standing Committee in 1997, in the context of the Fund's proposed budget for the biennium 1998-1999. The study would examine and assess the current status of the administrative functioning (including internal audit functions) and the requirements of the Fund secretariat, including its staffing, equipment and supplies, office space and computing and other requirements.

336. The Board also agreed that the concept paper should propose terms of reference for a comprehensive study of the requirements of the Fund for the next 10 years or longer, and the rationale for meeting those needs, in the light of the complexity and the actuarial projections of the size of the Fund during that period, including the number of its participants and beneficiaries. It should review the administrative relationship between UNJSPF and the United Nations and other member organizations of the Fund, and assess the long-term adequacy of those arrangements, including those required for performing the functions of the secretariat of the United Nations Staff Pension Committee and for the discharge by the Secretary-General of his responsibilities for the investment of the assets of the Fund. The concept paper should also propose modalities for carrying out such a comprehensive study.

337. The Board requested the Secretary to present the concept paper to the Standing Committee in 1997, for its recommendations for follow-up action.

G. Emergency Fund

338. The Emergency Fund was initially established by the Board in 1973 from voluntary contributions of member organizations, staff associations and individual contributors to alleviate the distress of recipients of small pensions, caused by currency fluctuations and cost-of-living increases. Since

the introduction of the pension adjustment system in 1975, it has been used to provide relief in individual cases of proven hardship owing to illness, infirmity or similar causes.

339. Last year, the General Assembly had authorized the Board to supplement the voluntary contributions to the Emergency Fund for the biennium 1996-1997 by an amount not exceeding $200,000. During the period 1 May 1995 to 30 April 1996, there were 25 disbursements totalling $24,834. The amounts disbursed over the two-year period, 1 May 1994 to 30 April 1996, totalled $74,432. Total expenditures since 1975 have reached $681,195.

340. As in the past, the bulk of the disbursements has been to assist in the payment of medical expenses, including hospitalization, and related expenses not reimbursable from other sources. In all cases involving claims for medical expenses not covered by the after-service medical insurance schemes of the member organizations, prior advice of the medical consultant was obtained.

341. The Board agreed to review in 1998 the consolidated guidelines for reimbursement from the Emergency Fund, which had been approved by the Board in 1984.

Notes

1/ See Regulations and Rules of the United Nations Joint Staff Pension Fund (JSPB/G.4/Rev.14).

2/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 9 (A/49/9), paras. 17-55.

3/ Ibid., paras. 59-72.

4/ Ibid., paras. 73-86.

5/ A/50/7/Add.1, para. 15.

6/ Official Records of the General Assembly, Fifty-first Session, Supplement No. 30 (A/51/30).

7/ The following procedure currently applies in establishing the pensionable remuneration of an ungraded official with a net remuneration higher than that of a D-2, top step, official:

(a) Calculate the percentage by which the net remuneration of the ungraded official exceeds that of a D-2, top step, official, determined as the amounts applicable in New York (i.e., net base salary plus post adjustment in New York, at the dependency rates);

(b) Calculate 90 per cent of (a) above;

(c) Establish the pensionable remuneration of the ungraded official as the pensionable remuneration of a D-2, top step, official increased by the percentage determined under (b) above.

8/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 9 (A/49/9), paras. 159-165.

9/ Ibid., paras. 191 ff.

10/ Ibid., paras. 191-201.

11/ JSPB/G.12/Rev.2.

12/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 9 (A/49/9), paras. 237-253; ibid., Forty-eighth Session, Supplement No. 9 (A/48/9), paras. 119-129; ibid., Forty-seventh Session, Supplement No. 9 (A/47/9), paras. 28-39; and ibid., Forty-sixth Session, Supplement No. 9 (A/46/9), paras. 61-65.

13/ Ibid., Forty-ninth Session, Supplement No. 9 (A/49/9), paras. 267-274.

14/ Ibid., Forty-fifth Session, Supplement No. 9 (A/45/9), para. 186.

15/ A/50/7/Add.1, para. 13.

16/ Ibid., para. 24.

ANNEX I

Statistics on the operations of the Fund
for the year ended 31 December 1995

Table 1. Number of participants as at 31 December 1995

Member organization	Participants as at 31 December 1994	New entrants	Transfers		Separations	Participants as at 31 December 1995
			in	out		
United Nations	38 511	8 702	290	(78)	(3 366)	44 059
ILO	2 977	257	21	(18)	(414)	2 823
FAO	6 093	494	15	(24)	(843)	5 735
UNESCO	2 605	160	4	(16)	(192)	2 561
WHO	6 068	620	25	(28)	(560)	6 125
ICAO	877	40	3	(9)	(91)	820
WMO	360	14	1	(2)	(40)	333
GATT	441	63	10	(8)	(30)	476
IAEA	2 077	187	18	(9)	(127)	2 146
IMO	316	18	2	(1)	(20)	315
ITU	893	86	6	(5)	(72)	908
WIPO	552	84	6	(4)	(27)	611
IFAD	304	13	3	(2)	(16)	302
ICCROM	29	0	0	0	0	29
EPPO	9	1	0	0	0	10
UNIDO	1 701	139	16	(216)	(185)	1 455
TOTAL	63 813	10 878	420	(420)	(5 983)	68 708

Table 2. Benefits awarded to participants or their beneficiaries during the year ended 31 December 1995

Member organization	Retirement benefit	Early retirement benefit	Deferred retirement benefit	Withdrawal settlement		Child's benefit	Widow's and widower's benefits	Other death benefit	Disability benefit	Secondary dependant's benefit	Transfer under agreements	Total
				under 5 years	over 5 years							
United Nations	404	224	79	2 110	363	590	67	18	19	2	4	3 880
ILO	55	30	18	256	46	67	2	1	3	0	1	479
FAO	118	153	37	383	135	147	15	0	15	1	2	986
UNESCO	59	43	6	55	13	53	3	1	1	0	2	236
WHO	122	49	19	268	59	161	14	2	4	0	1	699
ICAO	19	6	7	49	9	9	1	0	0	0	0	100
WMO	13	6	1	18	2	3	0	0	0	0	0	43
GATT	6	3	1	16	3	0	0	0	1	0	0	30
IAEA	20	19	14	49	19	15	2	0	3	0	1	142
IMO	2	5	1	6	4	1	0	0	2	0	0	21
ITU	15	11	0	37	5	9	1	1	2	0	0	81
WIPO	2	0	2	18	2	2	2	1	0	0	0	29
IFAD	4	4	0	6	0	2	2	0	0	0	0	18
ICCROM	0	0	0	0	0	0	0	0	0	0	0	0
EPPO	0	0	0	0	0	0	0	0	0	0	0	0
UNIDO	26	19	8	108	25	16	2	0	0	0	0	204
TOTAL	865	572	193	3 359	685	1 075	111	24	50	3	11	6 948

Table 3. Analysis of periodic benefits as at 31 December 1995

Participants or their beneficiaries

Type of benefit	Total as at 31 December 1994	New	Benefits discontinued, resulting in award of survivor's benefit	All other benefits discontinued	Total as at 31 December 1995
Retirement	12 249	865	(183)	(139)	12 792
Early retirement	6 857	573	(98)	(41)	7 291
Deferred retirement	5 913	194	(22)	(52)	6 033
Widow	4 976	105	308	(120)	5 269
Widower	264	18	15	(19)	278
Disability	698	50	(21)	(10)	717
Child	6 149	1 075	0	(741)	6 483
Secondary dependant	50	3	1	(3)	51
Total	37 156	2 883	0	(1 125)	38 914

ANNEX II

Audit opinion, financial statements and schedules for the year ended 31 December 1995

A. Audit opinion

We have examined the appended financial statements, numbered I and III, properly identified, and the relevant schedules numbered 1 to 6 and the supporting explanatory notes of the United Nations Joint Staff Pension Fund for the financial period ended 31 December 1995, in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Our examination included a general review of the accounting procedures and such tests of the accounting records and such other supporting evidence as we considered necessary in the circumstances.

In our opinion, the financial statements present fairly the financial position of the Pension Fund as at 31 December 1995 and the results of the operations for the financial period then ended; they were prepared in accordance with the stated accounting policies, which were applied on a basis consistent with that of the preceding financial period; and the transactions were in accordance with the Financial Regulations and legislative authority.

In accordance with our usual practice, we have issued a long form report on our audit of the United Nations Joint Staff Pension Fund's financial statements as provided for in the Financial Regulations.

(Signed) Osei Tutu PREMPEH
Auditor-General of Ghana

(Signed) Sir John BOURN
Comptroller and Auditor-General
of the United Kingdom of Great
Britain and Northern Ireland

(Signed) Vijay Krishna SHUNGLU
Comptroller and Auditor-General
of India

31 July 1996

B. Note on the financial statements of the Fund for the year ended 31 December 1995

Summary of significant accounting policies

The following are some of the significant accounting policies of the United Nations Joint Staff Pension Fund:

1. Investments

Investments are recorded at cost using commercial historical exchange rates instead of United Nations operational rates of exchange. Interest income and dividends are recorded on an accrual basis and foreign taxes withheld are recorded as receivables. Foreign cash is revalued at year end and a gain or loss realized.

2. Contributions

Contributions received from participants, member organizations and other funds are recorded on an accrual basis.

3. Benefits

Payments of benefits, including withdrawal settlements, are recorded on an accrual basis.

4. Principal of the Fund

The principal of the Fund represents the active participants' contributions plus interests, together with the balance of equity of the Fund.

5. Emergency Fund

Appropriation is recorded when the authorization is approved by the General Assembly; payments are charged directly against the appropriation account; any unexpended balance is reverted to the Pension Fund at the end of the year.

6. Administrative expenses

In accordance with article 15 (b) of the UNJSPF Regulations, the administrative expenses of the Fund are estimated and approved on a biennial basis.

7. Statement of income and expenditure and Statement of assets, liabilities and principal of the Fund, and statement of cash flow

In conformity with the United Nations system accounting standards, issued in ACC/1995/FB/R31, the order of presentation of the financial statements has been changed as follows:

Statement I	Statement of income and expenditure
Statement II	Statement of assets, liabilities and principal of the Fund
Statement III	Statement of Cash Flow

Where required, the formats of the statements have also been modified.

8. Non-expendable property

In line with United Nations practice, non-expendable property is not included in the fixed assets of the Fund but was charged against the appropriations for the year of purchase.

The following table shows the inventory value of the non-expendable property, at cost, expressed in millions of United States dollars, according to the cumulative inventory records of the Fund as at 31 December 1995:

	1995
Pension Fund secretariat	4.27
Investment Management Service	0.27
Total	4.54

9. Two additional schedules are included in the financial statements: Schedule 4 provides a breakdown of accounts receivable from investments and Schedule 5 the accrued income from investments.

STATEMENT I

Statement of income and expenditure for the year ended 31 December 1995 with comparative figures for the year ended 31 December 1994

(United States dollars)

	1995	1994
INCOME		
Contributions		
Participants:		
Regular contributions	257 449 936	235 849 973
Additional contributions with interest to make prior service contributory	969 499	575 084
Repayment of benefits with interest to restore prior contributory service	1 612 710	2 000 234
Member organizations:		
Regular contributions	514 899 873	471 699 947
Additional contributions with interest to make prior service contributory	1 964 940	1 253 490
Amounts received from non-member organizations for participants transferred under agreements	109 328	349 670
Receipts of excess actuarial cost over regular contributions with interest to make prior service contributory	544 217	2 227
Investment income:		
Interest earned	347 651 405	357 790 223
Dividends	196 019 831	170 793 622
Real estate and related securities	53 805 558	52 590 575
Profit (net) on sales of investments	127 565 401	197 702 932
TOTAL INCOME	1 502 592 698	1 490 607 977

STATEMENT I (continued)

(United States dollars)

	1995	1994
EXPENDITURE		
Payment of benefits:		
Withdrawal settlements and full commutation of benefits	39 016 077	46 744 830
Retirement benefits	391 685 419	353 987 649
Early and deferred retirement benefits	255 232 801	234 821 438
Disability benefits	19 103 645	16 966 788
Death benefits (other than to children)	69 326 843	63 002 320
Children's benefits	10 631 704	9 836 282
Currency exchange adjustments	2 244 661	1 860 824
Amounts remitted to non-member organizations and Governments for participants transferred under agreements	1 538 945	2 568 900
Administrative expenses:		
Administrative costs	6 413 199	5 998 705
Investment costs chargeable to gross income from investments	10 624 818	14 424 565
Emergency Fund	25 478	63 595
TOTAL EXPENDITURE	805 843 590	750 275 896
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	696 749 108	740 332 081
Prior period adjustments	3 380 552	(157 241)
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	700 129 660	740 174 840

Certified correct:

(Signed) Joseph E. CONNOR
Under-Secretary-General for
Administration and Management
Representative of the Secretary-General
for the Investments of the United Nations
Joint Staff Pension Fund
(for investments of the Fund only)

(Signed) Raymond GIERI
Secretary
United Nations Joint
Staff Pension Board

STATEMENT II

Statement of assets, liabilities and principal of the Fund as at 31 December 1995 with comparative figures as at 31 December 1994

(United States dollars)

		1995	1994
ASSETS			
Cash and term deposits		18 568 186	17 950 506
Investments (schedules 2 and 3)			
Temporary investments - at cost (market value: 656 637 921)	658 329 515		
Bonds - at cost (market value: 4 219 762 065)	3 901 158 449		
Stocks and convertible bonds - at cost (market value: 9 496 981 902)	6 931 219 055		
Real estate and related securities - at cost (market value: 814 422 590)	911 983 307	12 402 690 326	11 686 618 518
Accounts receivable			
Contributions receivable from member organizations		48 148 420	27 567 850
Receivable from investments (schedule 4)		37 895 944	27 459 565
Accrued income from investments (schedule 5)		126 865 983	145 488 786
Foreign tax accounts receivable (schedule 6)		11 124 274	10 402 459
Other		754 375	545 626
Prepaid benefits		12 366 825	11 816 593
TOTAL ASSETS		12 658 414 333	11 927 849 903
LIABILITIES			
Accounts payable			
Benefit payable		17 789 538	17 085 642
Payable for securities purchased		37 127 057	3 415 439
Inter-fund balances			
Other		2 589 627	6 570 371
TOTAL LIABILITIES		57 506 222	27 071 452
PRINCIPAL OF THE FUND		12 600 908 111	11 900 778 451
TOTAL LIABILITIES AND PRINCIPAL OF THE FUND		12 658 414 333	11 927 849 903

Certified correct:

(Signed) Raymond GIERI, Secretary

STATEMENT III

Statement of cash flow for the year ended 31 December 1995 with comparative figures for the year ended 31 December 1994

(United States dollars)

	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net excess of income over expenditure (Statement I)	700 129 660	740 174 840
(Increase) decrease in contributions receivable	(20 580 570)	(549 605)
(Increase) decrease in accounts receivable	(208 749)	341 340
(Increase) decrease in prepaid benefits	(550 232)	(834 809)
Increase (decrease) in benefits payable	703 896	(6 572 874)
Increase (decrease) in other accounts payable	(3 980 744)	(713 511)
NET CASH FROM OPERATING ACTIVITIES	675 513 261	731 845 381
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in investments	(716 071 808)	(655 973 124)
(Increase) decrease in investments receivable	7 464 609	(11 291 719)
Increase (decrease) in payable for securities purchased	33 711 618	(55 305 027)
NET CASH FROM INVESTING ACTIVITIES	(674 895 581)	(722 569 870)
NET INCREASE IN CASH AND TERM DEPOSITS	617 680	9 275 511
CASH AND TERM DEPOSITS, BEGINNING OF PERIOD	17 950 506	8 674 995
CASH AND TERM DEPOSITS, END OF PERIOD	18 568 186	17 950 506

SCHEDULE 1

Schedule of administrative expenses for 1995 and 1994
(United States dollars)

Administrative costs	**1995**	**1994**
Established posts	3 419 029	3 183 119
Overtime and temporary assistance	435 632	283 019
Common staff costs	1 316 995	1 055 854
Training	8 480	9 463
Actuarial consulting services	178 263	323 975
Consultants (not covered under data-processing costs)	0	16 520
Travel of staff	22 907	74 228
Committee of actuaries	32 653	30 627
Data-processing costs	933 645	946 714
External audit	13 460	13 670
Computer services rendered by the United Nations	20 000	20 000
Communications services	5 000	5 000
Hospitality	5 488	4 983
Miscellaneous charges	21 647	31 533
Total	**6 413 199**	**5 998 705**

Investments costs	**1995**	**1994**
Established posts	1 205 867	1 026 028
Overtime and temporary assistance	101 079	196
Common staff costs	424 830	420 308
Training	15 687	6 019
Custodial services and investment counsel	7 984 027	11 946 367
Consultants	0	383 465
Travel of staff	97 935	45 788
Investments Committee	127 073	166 783
Data-processing costs	206 457	36 842
Communications services	51 739	971
Hospitality	690	462
Miscellaneous charges	299 273	112 913
Bank charges	70 845	157 196
Office furnishings	39 316	121 227
Total	**10 624 818**	**14 424 565**

SCHEDULE 2

Summary statement of investments as at 31 December 1995

(Thousands of United States dollars)

Investments	Balances - at cost*		1995 income		
	1 January 1995	31 December 1995	Profit or (loss) on sales	Dividends, interest or income	Total
Bonds (United States dollars)	1 586 876	1 491 929	13 346	119 643	132 989
Stocks and convertible bonds (United States dollars)	2 096 286	2 356 987	23 166	77 566	100 732
Bonds (other currencies)	2 648 556	2 409 229	36 090	196 454	232 544
Stocks and convertible bonds (other currencies)	3 953 295	4 574 232	83 546	118 454	202 000
Real estate and related securities (United States dollars and other currencies)	927 484	911 983	(18 917)	53 806	34 889
Temporary investments (United States dollars)	301 372	567 436	14	24 657	24 671
Temporary investments (other currencies)	172 750	90 894	(9 680)	6 897	(2 783)
Total portfolio	**11 686 619**	**12 402 690**	**127 565**	**597 477**	**725 042**

* Cost value adjusted to reflect year-end adjustments.

SCHEDULE 3

Comparison of cost value and market value of investments as at 31 December 1995 and 31 December 1994

(Thousands of United States dollars)

Investments	31 December 1994			31 December 1995		
	Cost*	Percentage of total cost value	Market value*	Cost*	Percentage of total cost value	Market value*
Bonds (United States dollars)	1 586 876	13.6	1 514 567	1 491 929	12.0	1 591 520
Stocks and convertible bonds (United States dollars)	2 096 286	17.9	2 536 615	2 356 987	19.0	3 624 623
Bonds (other currencies)	2 648 556	22.7	2 618 203	2 409 229	19.4	2 628 242
Stocks and convertible bonds (other currencies)	3 953 295	33.8	4 854 738	4 574 232	36.9	5 872 359
Real estate and related securities (United States dollars and other currencies)	927 484	7.9	811 489	911 983	7.4	814 422
Temporary investments (United States dollars)	301 372	2.6	301 340	567 436	4.6	565 716
Temporary investments (other currencies)	172 750	1.5	166 313	90 894	0.7	90 922
Total portfolio	**11 686 619**	**100.0**	**12 803 265**	**12 402 690**	**100.0**	**15 187 804**

* Cost and market values adjusted to reflect year-end adjustments.

SCHEDULE 4

Summary statement of accounts receivable from investments as at 31 December 1994 and 31 December 1995

(United States dollars)

Accounts receivable	31 December 1994	31 December 1995
Bonds (United States dollars)		25 000 000
Stocks and convertible bonds (United States dollars)		
Bonds (other currencies)		
Stocks and convertible bonds (other currencies)	1 536 798	12 836 904
Real estate and related securities (United States dollars and other currencies)	25 922 767	59 040
Temporary investments (United States dollars)		
Temporary investments (other currencies)		
Total	**27 459 565**	**37 895 944**

SCHEDULE 5

Summary statement of accrued income from investments as at 31 December 1994 and 31 December 1995

(United States dollars)

Accrued income	31 December 1994	31 December 1995
Bonds (United States dollars)	31 620 996	34 166 831
Stocks and convertible bonds (United States dollars)	14 172 721	12 024 123
Bonds (other currencies)	91 159 588	70 669 608
Stocks and convertible bonds (other currencies)	6 909 603	7 846 387
Real estate and related securities (United States dollars and other currencies)	1 162 721	1 509 215
Temporary investments (United States dollars)	333 258	541 447
Temporary investments (other currencies)	129 899	108 372
Total	**145 488 786**	**126 865 983**

SCHEDULE 6

Summary of foreign tax accounts receivable as at 31 December 1995

		Local currency						Exchange rate in effect 31 December 1995	Equivalent in United States dollars
		Prior to 1992	1992	1993	1994	1995	Totals		
Australia	$A					152 721	152 721	1.344326	113 604
Austria	S					735 900	735 900	10.070300	73 076
Belgium	BF				456 043		456 043	29.429100	15 496
Brazil	$CR					32 839	32 839	0.971918	33 788
	$US					80 258	80 258	1.000000	80 258
Chile	$US			6 601	54 776	39 088	100 465	1.000000	100 465
France	FF				7 239 375		7 239 375	4.890377	1 480 331
Germany	DM					335 938	335 938	1.431277	234 712
Ghana	$US					7 188	7 188	1.000000	7 188
India	£	82 653		3 165	2 170		87 988	0.644080	136 610
Ireland	£				17 175	8 183	25 358	0.623920	40 643
Italy	Lit	1 278 402 293					1 278 402 293	1 586.399100	805 852
Kenya	SH					176 000	176 000	55.948200	3 146
Malaysia	$M	218 259		1 214 081	819 691	1 431 092	3 683 123	2.538902	1 450 676
	$S	71 228	25 214	119 865	110 202	138 450	464 959	1.414466	328 717
Mexico	$N	644 962					644 962	7.704753	83 710
	$US	134 911	24 380	53 108	19 819	3 402	235 620	1.000000	235 620
Netherlands	FLS					608 176	608 176	1.602989	379 401
Philippines	P	768 750		91 872	93 291		953 913	26.229200	36 368
	$US	30 776	17 866	15 839	4 367	17 526	86 374	1.000000	86 374
Republic of Korea	$US					33 289	33 289	1.000000	33 289
Singapore	$S				187 670	798 593	986 263	1.414466	697 269
	$M			30 240	22 680		52 920	2.538902	20 844
Spain	Pts	394 399 766	22 564 539				416 964 305	121.316100	3 437 007
Switzerland	SwF				24 316	831 213	855 529	1.150651	743 517
United Kingdom of Great Britain and Northern Ireland	£				55 493	244 850	300 343	0.644080	466 313
								Total amount outstanding	11 124 274

ANNEX III

Report of the Board of Auditors to the General Assembly on the accounts of the United Nations Joint Staff Pension Fund for the year ended 31 December 1995

Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Joint Staff Pension Fund (UNJSPF) for the period 1 January 1994 to 31 December 1995 in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article 14 of the Regulations of UNJSPF. The audit has been conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the biennium 1994-1995 had been incurred for the purposes approved by the Pension Board; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations; and whether the financial statements of UNJSPF presented fairly the position as at 31 December 1995. The audit included a general review of financial systems and internal controls; and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary to form an opinion on the financial statements. The audit was carried out at the secretariat of the Pension Board and the Investment Management Service at the United Nations in New York.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under regulation 12.5 of the United Nations Financial Regulations and Rules. The reviews concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNJSPF.

4. During the period under review, the Board continued its practice of reporting the results of specific audits through management letters containing detailed observations and recommendations to the Administration. This practice helped in maintaining an ongoing dialogue with the Administration on audit issues.

5. The present report covers matters which, in the opinion of the Board, should be brought to the attention of the Pension Board and the General Assembly. The Board's observations and conclusions were discussed with the Administration, whose views, where appropriate, have been reflected in this report. The report is divided into two parts covering the audit of financial statements and management issues, respectively.

6. A summary of the Board's main recommendations and findings is reported in paragraphs 9 to 18. The detailed findings are reported in paragraphs 19 to 54.

Follow-up on actions taken on previous audit recommendations

7. Pursuant to paragraph 15 of General Assembly resolution 47/211 of 23 December 1992, the Board has reviewed measures taken to implement its previous audit recommendations. Most of the previous recommendations of the Board were effectively implemented by the Administration. Details of the actions taken and the comments of the Board are set out in the appendix to the present report.

Overall results

8. The Board's examination revealed no weaknesses or errors considered material to the accuracy, completeness or validity of the financial statements as a whole. Accordingly, the Board has placed an unqualified opinion on the financial statements of the Fund.

Summary of recommendations

9. The Board recommends that the following corrective actions, presented in order of priority, be taken:

(a) The practice of paying contributions in local currency should be brought to the attention of the Pension Board with a view to regularizing such practice in the Fund's Regulations and Rules (see para. 49);

(b) To further improve verification of continued eligibility of beneficiaries, consideration should be given to upgrading scanner equipment and recording addresses of pensioners directly into the database (see para. 33);

(c) The United Nations Joint Staff Pension Fund should make a formal agreement with the Consulting Actuary which clearly sets out the terms of engagement including the fees payable (see para. 29).

Summary of findings

10. Despite the amendment to the Fund's regulations by General Assembly resolution 46/192 of 20 December 1991, the financial statements of the Fund continued to be prepared and presented on an annual rather than biennial basis (see para. 19).

11. The decline of $43.6 million in excess of income over expenditure from 1994 to 1995 was mainly due to the increases in the expenditures on retirement benefits, early and deferred retirement benefits and disability benefits (see paras. 22 and 23).

12. There was no formal agreement for determining the terms of engagement including fees of the Fund's Consulting Actuary (see para. 27).

13. An improved system for verifying the continued eligibility of beneficiaries expedited the verification process and made it more efficient (see para. 32).

14. Delays ranging between three to six years in effecting changes in the records of beneficiaries resulted in an overpayment totalling $88,809 to four

beneficiaries. Under rule J.9 (b), the Secretary of the Fund waived $55,118 on the grounds that this was not due to the fault of the beneficiaries (see para. 36).

15. The increase in the number of Member States that have granted tax exemption to the Fund's investment income has yet not resulted in a corresponding decrease in the foreign tax receivable (see para. 42).

16. The Fund's reconciliation of actual contributions due with the monthly amounts paid was difficult and time consuming as a result of defects in the returns on contributions submitted by some member organizations (see para. 45).

17. The payment of monthly contributions by four member Organizations in their respective local currencies is not in accordance with the Fund's Regulations and Rules (see paras. 47 and 49).

18. The introduction of competitive bidding in the appointment of custodians and the elimination of fees paid to sub-custodians have resulted in a significant reduction of the cost of custodial services and of investment counsel from $11.9 million for 1994 to $8 million in 1995 (see para. 51).

Part I: Financial statements

Accounts and financial reporting

Preparation and presentation of financial statements

19. Resolution 46/192 of 20 December 1991 of the General Assembly amended article 14 (a) of the United Nations Joint Staff Pension Fund's Regulations to conform with the biennial financial reporting system. Notwithstanding this change, the financial statements of the Fund continued to be prepared on an annual rather than biennial basis.

20. The Board also observed that changes in the Principal Fund balances for the period ended 31 December 1995 were not disclosed in Statement I (Statement of income and expenditure and changes in reserves and Fund balances). This presentation does not conform to the format annexed to the United Nations System Accounting Standards.

21. The Administration has agreed to provide financial statements on a biennial basis. Interim financial statements will be prepared at the end of the first year of the biennium for the information of the Fund's management and the Standing Committee of the Pension Board. The Administration would also disclose the changes in the Principal Fund in Statement I of the financial statements.

Performance of the Fund

22. The Board's review disclosed a growth in the investment portfolio of the Fund from $11.7 billion at the end of 1994 to $12.4 billion as of 31 December 1995. The market values of these intangible assets also increased by $2.4 billion (19 per cent) as at 31 December 1995 to $15.2 billion as against $12.8 billion at the end of 1994.

23. Contributions rose by $65.8 million (9.2 per cent) to $777.5 million (1994: $711.7 million) due to an increase in the number of participants in the Fund and changes in the levels of pensionable remuneration. Payment of benefits, which

constitutes 97.9 per cent of total expenditure of the Fund, rose by $59 million (8 per cent) to $788.8 million (1994: $729.8 million). However, excess of income over expenditure in 1995 declined by $43.6 million (5.9 per cent) to $696.7 million (1994: $740.3 million) mainly due to the increase in the expenditures on retirement benefits (11 per cent), early and deferred retirement benefits (9 per cent) and disability benefits (13 per cent).

24. With the current financial difficulties within the United Nations, some 216 staff members are due for early separation in the 1996-1997 biennium. The scheme designed for the early separation would result in the affected staff opting for early retirement benefit under article 29 of the Pension Fund Regulations. It is expected that more staff will be separating from the United Nations Organization in the near future, resulting in an additional financial burden to the Fund.

25. The Board therefore suggested that in formulating investment policies, consideration should be given to the staff separation exercise being implemented by the United Nations, as a sharp increase in the level of separations will have significant impact on contributions received and may affect outgoings from the Fund.

26. The Administration said that the long-term objectives of the Fund are, first, to preserve the principal of the Fund in real terms; and secondly, to obtain optimal investment return that avoids undue risk. The strategy applied to achieve these objectives was designed to be effective over an investment cycle, which may last from two to five years depending on the economic and market forces in operation during the period. However, the Fund will continue to adopt prudent investment strategies which will take into account the continued decline in net contributions.

Budgetary provision for actuarial services

27. The Board's review of the actuarial services and fees charged by the Fund's Consulting Actuary disclosed that there was no formal written agreement backing the fees that were charged by the consultants. The practice over the years has been for the estimates obtained from the consultants and included in the budgets to be used as the basis for their fees. This method of fixing the consultants' fees is not adequately formalized and lacked transparency. The Pension Fund explained that, under the current arrangements, extensive discussions were held with, and advice obtained from, the Consulting Actuary on pension issues without resort to hourly billings. In the Fund's view, the current arrangements provided flexibility which has been beneficial to the Fund.

28. Also, although the approved budget for the actuarial services was $450,000 for the 1994-1995 biennium, this was overspent by $52,238. The excess expenditure was attributed to an unanticipated actuarial costing requested by the Pension Board, and was absorbed by transferring savings achieved under other objects of expenditure.

29. The Board of Auditors, while recognizing the benefits under the current system, nevertheless recommended that there should be a formal agreement between the Fund and the Consulting Actuary, which should clearly state the terms of engagement including the fees for their services.

30. The Administration indicated that it would pursue the adoption of formal arrangements with the Consulting Actuary.

Write-off of losses of cash, receivables and property

31. The Board was informed that during the financial period ended 31 December 1995, receivables amounting to $71,782 were written off. This included a waiver of an overpayment of $49,180 made to three beneficiaries in accordance with Administrative rule J.9 (b) (see para. 36).

Part II: Management issues

Pension entitlements

Processing and mailing of certificates of entitlement

32. In order to improve the system of verification of the continued eligibility of beneficiaries, the Fund introduced in December 1994 a new system of processing and mailing certificates of entitlement (CEs). The Board noted that the new system had shortened the average mailing and reviewing period of returned certificates of entitlement from 13 to six months. For instance, out of 22,771 CEs mailed in December 1994 to beneficiaries and 2,719 in February 1995, only 110 CEs had not been returned as of November 1995. A further modification of the format of the CEs yielded even more positive results. In October 1995, 27,738 CEs were mailed to beneficiaries. Within 10 days 7,000 completed CEs were received and in less than one month the number had increased to 17,348 or 62.5 per cent of the total issued, thus affirming the effectiveness of the new mailing system.

33. In order to further improve the system and reduce the potential for overpayments of pension benefits, the Board recommends that the Pension Fund Secretariat should consider:

(a) Upgrading scanners to include optical character recognition (OCR) and intelligent character recognition (ICR); and

(b) Recording addresses of pensioners directly into the database rather than "free form" in order to have better access to current information.

34. The Administration has accepted these recommendations and is studying various methods to reduce the potential for fraud as regards the validity of signatures on the returned CEs and verification of marital status of widows/widowers.

Participants' change of country of residence

35. A beneficiary who is on the two-track adjustment system (dollar and non-dollar currencies) needs to notify the Fund in the event of his/her movement from one zone to another for the benefit to be recomputed using the appropriate rate.

36. The Board observed that though four beneficiaries informed the Fund about the change in their residence, their benefits continued to be paid at the previous rates, which were higher than the rates pertaining to their current residence. The delays in effecting the necessary adjustments to the benefits, which ranged between three and six years, resulted in overpayments totalling $88,809. The Secretary of the Fund, in the exercise of his discretion under Administrative rule J.9 (b), has waived the recovery of the $55,118 on the grounds that this amount was not due to the fault of the beneficiaries. The

Pension Fund secretariat has initiated recovery action for the balance of $33,691. The Administration has written off $49,180 out of the waiver amount of $55,118 against the accounts for the period ended 31 December 1995. The fourth case of $5,938 will be reported in the 1996 financial statements.

37. The Administration explained that, to improve the system of verification of change in a country of residence and to reduce the risk of overpayment, it has developed a computer programme to capture the details on the changes shown in the returned certificates.

38. The Board of Auditors, however, observed that the new programme could achieve its intended purpose only if beneficiaries are requested to provide enough information relating to change in their country of residence. Such information should include effective date of change, the new country and the proof of change of country of residence.

39. The Pension Fund secretariat has introduced an additional check which freezes benefits at the level of the lowest possible entitlement when sufficient information is not provided within six months of change of country of residence.

40. The Board is of the view that before the waiver clause under rule J.9 (b) is applied, the Pension Fund secretariat should establish whether any staff member should bear personal responsibility for the loss, as a result of any negligence; and the Pension Fund should take action as appropriate.

Investments

Outstanding tax refunds

41. In previous reports, the Board of Auditors had commented on the reluctance of some Member States to exempt the Fund's investment income from direct taxes under the Convention on the Privileges and Immunities of the United Nations. In such countries, interest and dividends earned from investments are considered as income derived from business sources and are subject to withholding tax.

42. A follow-up by the Board of Auditors revealed that the number of Member States that had accepted to grant tax exemptions on the Fund's investment income has increased from 30 to 38 (27 per cent) during the biennium 1994-1995. The new tax exemptions had not yet resulted in a corresponding decrease in the foreign tax receivable balance as at the end of the financial period ended 31 December 1995. The Board nonetheless reiterated its recommendation that efforts to recover the outstanding tax reimbursements should continue and that further appeals should be made to Member States to accept the tax-exempt status of UNJSPF.

43. The Pension Fund secretariat has enforced the policy only to invest in countries which have granted tax exemption to the Fund. A major constraint which has led to an increase in the outstanding balance on the foreign tax account is the cumbersome reimbursement process in some of the countries that had granted the tax exemption. The Fund however will continue to follow up on the recovery of the withholding tax with the assistance of the custodians of the Fund's investments.

Monitoring of monthly contributions

44. Member organizations are required to remit monthly contributions in United States dollars to the Fund and must also submit monthly and annual statements of contributions received. Because of the large number of field offices, the United Nations, the United Nations Development Programme (UNDP), and the United Nations Children's Fund (UNICEF) have been remitting estimated fixed amounts each month, based on past years' contribution requirements instead of the actual monthly contributions.

45. The Board observed that the remittances of the agreed fixed amounts have been regular and timely. However, the reconciliation of the actual contributions due with the fixed amounts has been difficult and time consuming because the information provided by some member organizations was either incomplete, inaccurate or irregular. UNDP, for instance, because of the limitations in its computer system, has not been able to submit monthly or quarterly statements of contributions, and as a result this has led to an underpayment of $1.9 million to the Fund as of 31 December 1995, which has since been cleared.

46. The Pension Fund secretariat explained that the underpayment by UNDP was due to the retroactive introduction in 1995 of revised 1994 General Service salary scales at a number of field duty stations. Another factor was the delay in the implementation of the November 1995 changes in the pensionable remuneration scale for the Professional and higher categories in early 1996. The secretariat would continue to remind member organizations of their obligation to provide monthly or at least quarterly statements of contributions.

Payments of contributions in local currency

47. The Board noted that four specialized agencies, namely, the World Meteorological Organization (WMO), the International Telecommunication Union (ITU), the World Intellectual Property Organization (WIPO) and the International Maritime Organization (IMO), have arranged with UNJSPF to pay their monthly contributions in their respective local currencies.

48. UNJSPF explained that this procedure was adopted because local currency was needed to pay pension benefits in those countries. The aim of the retention is to avoid currency exchange costs and money transfer charges for both the individual organizations and UNJSPF.

49. The Board considers that the continued application of the decision should be covered by the Fund's Regulations and Rules, since article 47 (a) of the Regulations of the Fund states that "contributions under these Regulations shall be calculated and remitted to the Fund in dollars". The Board of Auditors recommended that the matter be brought to the Pension Board's attention with a view to regularizing the practice through a specific provision in the Fund's Regulations and Rules.

50. The United Nations Joint Staff Pension Fund indicated that the Pension Board has been informed that the Fund had authorized payment of contributions by some organizations in currencies other than United States dollars as this is beneficial to the Fund. The Fund's secretariat is of the view that the practice of accepting contributions from organizations in certain local currencies does not require a specific provision in the Fund's Administrative Rules. However, based on the Board's recommendation, an appropriate possible amendment of the

Fund's Regulations and Rules would be presented to the Pension Board for consideration.

Savings in advisory and custody fees

51. The Board observed that the cost of custodial services and investment counsel, which represents 75 per cent of investment costs, has been reduced from $11.9 million for 1994 to $8 million in 1995 (33 per cent). The reduction in costs is attributed to the introduction of competitive bidding in the appointment of custodians which had resulted in the reduction of fee rates and elimination of the fees paid to sub-custodians.

52. A further reduction in costs could be achieved if the Investment Management Service dealt directly with the managers of small cap holdings, saving the cost of agents. Also, the current rate of $25 per market value of portfolio charged for small cap holdings as against $4 per charged by the main Fund should be reviewed.

53. For the advisory services which are scheduled to be completed in June 1996, the Administration has already put these to competitive bidding and the preliminary selection process has been completed. A report on the result will be brought to the attention of the Pension Board. The Administration has also prepared preliminary documentation on the small cap holdings for a direct contract to be signed with its managers.

Cases of fraud and presumptive fraud

54. The Administration informed the Board that no case of fraud or presumptive fraud came to light during the financial period ended 31 December 1995.

Acknowledgement

55. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended by the Secretary of the United Nations Joint Staff Pension Board, the United Nations Controller, the representative of the Secretary-General for the investments of the Fund and their officers and members of their staff.

(Signed) Osei Tutu PREMPEH
Auditor-General of Ghana

(Signed) Sir John BOURN
Comptroller and Auditor-General
of the United Kingdom of Great
Britain and Northern Ireland

(Signed) Vijay Krishna SHUNGLU
Comptroller and Auditor-General
of India

31 July 1996

Appendix

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report on the accounts of the Fund for the financial period ended 31 December 1993 a/

1. As requested by the General Assembly in its resolution 47/211 of 23 December 1992, the Board has reviewed the actions taken by the Administration to implement the previous audit recommendations made by the Board in its report for the financial period ended 31 December 1993.

I. RECOMMENDATION 8 (a)

2. Consideration should be given to formally designating the Office of Inspections and Investigations as the internal auditors of the Fund or alternative arrangements be made for a separate internal audit function for the overall activities of the Fund.

Measures taken by the Administration

3. The Pension Board and the General Assembly have agreed with the recommendation of the Board of Auditors on the need for regular internal audits of the Fund. Extensive discussions have been held on the arrangements for the establishment of an internal audit function for the Fund. As an initial step, the General Assembly has approved $512,000 for the biennium 1996-1997 for internal audit services for UNJSPF including its investment operations to be provided by the Office of Internal Oversight Services. The long-term arrangements for internal audits of the Fund will be further discussed at the Pension Board's session in July 1996.

Comments of the Board

4. The Board has taken note of the steps towards the implementation of the recommendation within the 1996-1997 biennium and will keep this matter under review.

II. RECOMMENDATION 8 (b)

5. The present procedures for verifying Certificates of Entitlement of widows/widowers for continuing eligibility for benefit should be improved. Also, to serve as a deterrent, consideration should be given to the need to request widows/widowers to submit every two years notarized affidavits to the effect that they have not remarried.

Measures taken by the Administration

6. The Fund secretariat has taken measures to improve the verification procedures of the continued eligibility of beneficiaries to the Fund. The

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a/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 9 (A/49/9), annex III.

Pension Board and the Fund secretariat did not consider the request for notarized affidavits of non-remarriage from surviving spouses as a solution to avoiding fraud. The Fund intends to introduce additional improvements in the monitoring of continued eligibility of beneficiaries.

Comments of the Board

7. Improvements in the system of verification of the continued eligibility of beneficiaries are discussed in paragraphs 32 to 34 of the present report. The Board hopes that further steps that are being taken will fully address the concerns of the Board.

III. RECOMMENDATION 8 (c)

8. To obtain all the benefits accorded United Nations organizations, the Administration should continue to encourage the defaulting countries to acknowledge the tax-exempt status of the investments of UNJSPF.

Measures taken by the Administration

9. The fourth renewed appeal to Member States in General Assembly resolution 49/224 of 23 December 1994 has increased the number of Member States that have agreed to grant tax exemptions on the Fund's investment income from 30 to 38.

Comments of the Board

10. Further appeal should be made to Member States through the General Assembly.

ANNEX IV

Statement of actuarial sufficiency as at 31 December 1995 of the Fund to meet the liabilities under article 26 of the Regulations

1. In the report of the twenty-third actuarial valuation of the United Nations Joint Staff Pension Fund, the Consulting Actuary has assessed the actuarial sufficiency of the Fund, for purposes of determining whether there is a requirement for deficiency payments by the member organizations under article 26 of the Regulations of the Fund. The assessment as at 31 December 1995 was based on participant and asset information submitted by the secretariat of the Fund and on the Regulations in effect on that date.

2. The demographic and decremental actuarial assumptions used were those adopted by the Standing Committee of the United Nations Joint Staff Pension Board at its 177th meeting in 1995, except that future new entrants were not taken into account and no future salary growth was assumed. An 8.5 per cent discount rate was used, which was the rate adopted for the Regular Valuation of the Fund as at 31 December 1995.

3. The liabilities were calculated on a plan termination methodology. Under this methodology, the accrued entitlements of active participants were measured on the basis of their selecting the benefit of highest actuarial value available to them, assuming termination of employment on the valuation date. The liabilities for pensioners and their beneficiaries were valued on the basis of their accrued pension entitlements as of the valuation date. For purposes of demonstrating sufficiency under article 26 of the Regulations, no provision was made for pension adjustments subsequent to 31 December 1995.

4. All calculations were performed by the Consulting Actuary in accordance with established actuarial principles and practices.

5. The results of the calculations are set forth in the table below:

Actuarial sufficiency of the Fund as at 31 December 1995

(Millions of United States dollars)

Item	Amount
Actuarial value of assets a/	13 691.20
Actuarial value of accrued benefit entitlements	10 337.40
Surplus	3 353.80

a/ Five-year moving average market value, as adopted by the Pension Board for determining the actuarial value of the assets.

6. As indicated in the table above, the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on our understanding of the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as at 31 December 1995, for deficiency payments under article 26 of the Regulations of the Fund.

ANNEX V

Statement of actuarial position of the Fund as at 31 December 1995

Introduction

1. The actuarial valuation as at 31 December 1995 was performed on a range of economic assumptions regarding future investment earnings and inflation. In addition, three sets of participant growth assumptions were used. The remaining actuarial assumptions, which are of a demographic nature, were derived on the basis of the emerging experience of the Fund, in accordance with sound actuarial principles. All of the assumptions used in the valuation were those adopted by the Standing Committee of the United Nations Joint Staff Pension Board at its 177th meeting in 1995, based on the recommendations of the Committee of Actuaries.

Actuarial position of the Fund as at 31 December 1995

2. At its meetings in June 1996, the Committee of Actuaries reviewed the results of the actuarial valuation as at 31 December 1995, which was carried out by the Consulting Actuary. Based on the results contained in the valuation report, and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the Consulting Actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1997, and in the light of future developments.

ANNEX VI

Proposed Agreement between the Government of the Russian Federation and the United Nations Joint Staff Pension Board

Whereas the provisions of article 13 of the Regulations of the United Nations Joint Staff Pension Fund ("the Fund") authorize the United Nations Joint Staff Pension Board ("the Pension Board"), subject to the concurrence of the General Assembly, to approve agreements with member Governments of a member organization of the Fund and with intergovernmental organizations with a view to securing continuity of pension rights;

Whereas pursuant to these provisions a Transfer Agreement was concluded between the Pension Board and the Government of the Union of Soviet Socialist Republics (USSR) and approved by the General Assembly in resolution 35/215 of 17 December 1980;

Whereas upon dissolution of the Union of Soviet Socialist Republics, the Russian Federation assumed responsibility for the rights and obligations of the USSR in accordance with the United Nations Charter;

Whereas with the approval of the Pension Board the Secretary of the Fund suspended, as from 2 January 1992, the processing of any further transfers under the aforesaid Agreement pending clarification of its status;

Whereas former Fund participants from the USSR who transferred their accrued pension rights from the Fund to the USSR Social Security Fund in accordance with the terms of the Agreement ("transferees") have not received national pensions which took into account both their periods of contributory service with the Fund and the amounts paid on their behalf to the USSR Social Security Fund, as required by the Agreement;

Whereas in the case of each transfer made under the provisions of the aforesaid Agreement, the Fund transferred to the USSR Social Security Fund the actuarial equivalent of the transferee's accrued pension rights in the Fund, subject to certain minimum and maximum amounts specified in the Agreement;

Whereas the Pension Board and the Government of the Russian Federation ("the Government") wish to establish a basis upon which transferees will receive pension entitlements similar to those which they would have obtained had they not transferred their entitlements under the Agreement;

Whereas the Parties recognize that since the Fund has already remitted to the USSR Social Security Fund the actuarial equivalent of the accrued pension rights in the Fund of the transferees concerned, the costs of any entitlements to be established under the present Agreement shall be the financial responsibility of the Russian Federation and shall not be borne by the Fund;

Whereas the Parties confirm the understanding reached at the meeting between the Delegation of the Government and representatives of the Board in July 1995 that the concerns of other former participants, citizens of the Russian Federation, also need to be addressed, following the entry into force of the present Agreement.

The United Nations Joint Staff Pension Board and the Government of the Russian Federation therefore agree as follows:

1. Upon entry into force of the present Agreement, the Transfer Agreement with the USSR referred to in the Preamble, which entered into force on 1 January 1981, is hereby terminated.

2. The present Agreement does not constitute a Transfer Agreement within the terms of article 13 of the Fund's Regulations and is intended by the Parties to provide periodic pensions to a defined and limited class of former participants in the Fund who have signed statements to the Fund as set out in article 3 (iv) below; it is wholly self-contained and limited to creating the rights and obligations set out herein which are outside the statutory context of the Fund's Regulations and Administrative Rules. The provisions of the present Agreement shall not give rise to rights or entitlements of any kind for any person under the Fund's Regulations or Administrative Rules, nor are the provisions of this Agreement incorporated in any way in the Fund's Regulations or Administrative Rules.

3. The provisions of the present Agreement shall apply to the following persons, who transferred their accrued pension rights in the Fund to the USSR Social Security Fund under the terms of the aforesaid Transfer Agreement, and their survivors as defined in article 6 of the present Agreement: transferees who, upon separation from a member organization of the Fund, would have been entitled to a periodic pension benefit from the Fund (i.e., to a retirement, early retirement or deferred retirement benefit), in other words, those who upon separation had five or more years of contributory service in the Fund, provided that:

(i) they or their survivors are alive at the point in time when their periodic pension benefit becomes due under the provisions of the present Agreement; and

(ii) they are citizens of the Russian Federation at the time of the entry into force of the present Agreement; and

(iii) the Government has paid, with respect to them and on a group basis, the actuarial costs to the Fund for establishing and paying the periodic pensions specified in the present Agreement; and

(iv) they have signed a statement to the Fund in the form set out in the Annex to the present Agreement.

4. The Government shall confirm which of the transferees in the list provided by the Fund meet the criteria in article 3, paragraphs (i) and (ii), above. For those transferees the following provisions, subject to article 8 below, shall apply:

(a) for those who separated from a member organization of the Fund at age 60 or above: as from 1 January 1997 a periodic retirement pension shall be paid monthly in arrears. The initial pension shall be calculated as of the date of separation in United States dollars, in the same way as it would have been under the Fund's Regulations, and subsequently adjusted under the same rules as those established in Section H of the Fund's Pension Adjustment System, as related to the United States dollar amount only. No retroactive payments will be made with respect to the period prior to 1 January 1997. Further cost-of-living

adjustments will be made as from that date as would have been the case under Section H of the Fund's Pension Adjustment System;

(b) for those who separated from a member organization of the Fund prior to age 60: at age 60 or 1 January 1997, whichever is later, a periodic deferred retirement pension shall be paid monthly in arrears. The initial pension shall be calculated as of the date of separation in United States dollars, in the same way as a deferred retirement benefit would have been calculated under the Fund's Regulations, and subsequently adjusted under the same rules as those established under Sections H and J of the Fund's Pension Adjustment System, as related to the United States dollar amount only. No retroactive payments will be made with respect to the period prior to age 60 or 1 January 1997, whichever is later. Further cost-of-living adjustments will be made as from that date as would have been the case under Section H of the Fund's Pension Adjustment System.

5. No periodic pension payable under the present Agreement may be commuted, in whole or in part, into a lump sum.

6. Surviving spouses' periodic pensions shall be payable in cases where the transferee has died, provided that the spouse had been married to the transferee at the time of his or her separation from a member organization of the Fund, remained married to the transferee until his or her death, and has not subsequently remarried. If the transferee died before commencing to receive a periodic pension under the present Agreement, the surviving spouse shall receive one half of the periodic pension which the transferee would have received under the present Agreement at age 60 or 1 January 1997, whichever is later, as from that date. If the transferee died subsequent to commencing to receive a pension under the present Agreement, the surviving spouse shall receive one half of that periodic pension as from the month following the date of death. Cost-of-living adjustments shall be made as from the starting date as would have been the case under Section H of the Fund's Pension Adjustment System.

7. The actuarial costs of the periodic pensions provided under the present Agreement and the costs of administering those pensions shall be determined by the Fund's Consulting Actuary. The calculation of the actuarial costs shall be based on the assumptions used in the most recent actuarial valuation of the Fund including, in particular, the interest assumption, and shall be paid to the Fund by the Government in annual instalments amortized over a period of ten years. The first such payment shall be made prior to the entry into force of the present Agreement, pursuant to article 11 below. The subsequent payments shall be made annually, on or prior to, the anniversary of the date of the entry into force of the Agreement.

8. The Government shall make in full all of the payments required above. In the event of delay in the payment of an instalment for a period of ninety days beyond the due date, the Fund shall forthwith suspend payment of any periodic pensions and so inform the Government. On payment by the Government of the amount in arrears, with interest thereon at the actuarial rate then in use, payment of the periodic pensions shall be resumed with retroactive effect as from the date of suspension. If, however, no payments are made by the Government for a total period of six months beyond the due date, the Parties shall meet in order to resolve the problem. If no agreed solution is reached within a further period of ninety days, the matter shall be reported to the Pension Board and the General Assembly. At the same time, the Fund shall resume paying the periodic pensions, with retroactive adjustments as required, until such time as the total periodic pensions paid by the Fund under the present Agreement correspond to the amounts paid to the Fund by the Government.

9. Any transferee, as referred to in article 3 of the present Agreement, or surviving spouse of such transferee, who disputes a decision of the Secretary of the Board regarding any entitlement or payment under the present Agreement may, within one year from notification of the decision by the Secretary, request a review of that decision by the Standing Committee of the Pension Board, whose decision shall be final.

10. The concerns of other former participants in the Fund, citizens of the Russian Federation, not covered by the present Agreement shall be the subject of negotiations, following the entry into force of the present Agreement, as set out in the protocol annexed hereto.

11. The present Agreement shall enter into force on the first day of the month following the fulfilment of the later of the following two conditions:

(a) approval of its terms by the Government of the Russian Federation and the United Nations Joint Staff Pension Board and by the General Assembly;

(b) payment by the Government of the first instalment as required under article 7 above.

12. The present Agreement shall be considered terminated when no further payments are due to any transferee or surviving spouse of a transferee under its provisions.

I, _____, hereby acknowledge that I have read the terms of the Agreement between the Government of the Russian Federation and the United Nations Joint Staff Pension Board dated _____, and, in accepting to receive a periodic pension under that Agreement, I acknowledge that such pension falls outside the Regulations of the Fund and agree to waive any claims that I might have against the Fund, either now or in the future, arising from or relating to my contributory service in the Fund, whether under the Fund's Regulations and Rules or under any instrument or legal provision whatsoever, and hereby release the Fund from any and all possible obligations to me other than pursuant to the terms of the said Agreement.

Date: _____ Signed: _____ _____

Name printed

UNJSPF Pension No.: _____

PROTOCOL

1. The Parties to this Protocol agree that the proposed Agreement represents an accurate reflection of the discussions which took place between the Delegation representing the Government and the representatives of the United Nations Joint Staff Pension Board, at a meeting held in Moscow from 13 to 16 May 1996.

2. As a first step, the Government of the Russian Federation, basing itself on a list supplied by the Fund, shall determine which of the names on the list meet the criteria set forth in article 3, paragraphs (i) and (ii), of the proposed Agreement.

3. Upon receipt of a definitive list of transferees from the Government, the Fund will provide to the Government the actuarial costs required under article 7 of the proposed Agreement.

4. The Government will then advise the Fund when it has formally approved the proposed Agreement.

5. In the meantime, the proposed Agreement will have been considered by the Pension Board at its forty-seventh session from 8 to 19 July 1996; the Board, in turn, will submit its recommendation to the fifty-first session of the General Assembly.

6. With respect to the final preambular paragraph and operative paragraph 10 of the proposed Agreement, the parties agreed that, following the entry into force of the proposed Agreement, negotiations will take place to address the concerns of those former participants, citizens of the Russian Federation, who were covered by the 1981 Transfer Agreement but who separated from a member organization of the Fund with less than five years' contributory service, and those who separated before 1 January 1981, within a reasonable time-frame, to be determined by the parties.

ANNEX VII

Exchange of correspondence between the Permanent Representative and the Permanent Mission of Ukraine to the United Nations and the Secretary of the United Nations Joint Staff Pension Board

A. Letter dated 10 June 1996 from the Secretary of the United Nations Joint Staff Pension Board to the Permanent Representative of Ukraine to the United Nations

I refer to our previous correspondence concerning the application of the Transfer Agreements between the United Nations Joint Staff Pension Fund and the Governments of the former USSR, Ukrainian SSR and Byelorussian SSR.

As you know, I am directed by the Pension Board and the General Assembly to report each year on progress towards reaching a solution to the problems which have arisen with regard to the application of these Transfer Agreements. I attach hereto a copy of my report on this question* to the Pension Board, to be considered at its forty-seventh session from 8 to 19 July 1996, in Turin, Italy.

You will see from the report that I was invited to visit Moscow in May 1996 to continue the discussions with the Russian Federation that had commenced in July 1995. As a result of the visit, a proposed agreement will be presented to the Board in July, for referral to the General Assembly, constituting a first stage in the solution to the problems, so far as citizens of the Russian Federation are concerned. The authorities of the Russian Federation, however, stated that they could not approve an agreement which covered citizens of other countries, notwithstanding the fact that, under all three Transfer Agreements, the amounts transferred went to the USSR Social Security Fund.

As you know, we have received representations from former participants, citizens of the Ukraine and Belarus. The Pension Board has also stated its wish that the solution ultimately found be applied to all the former participants concerned. During my stay in Moscow, I was contacted by the Ukrainian Embassy. The Senior Legal Officer in the Fund and I met with Mr. Anatoliy Oliynyk, Deputy Head of the Department of International Organizations, and Mr. Oleg Baiy, Deputy Head of the Embassy of Ukraine in Moscow. We informed them of the status of our discussions with representatives of the Russian Federation and, in particular, of their firm position that they could only address the situation of Russian citizens and could not enter into any agreement concerning citizens of the other now independent States affected by the Transfer Agreements.

It would seem that, based on the position taken by the Russian Federation, each of the countries concerned would have to pursue agreements with the Fund separately concerning the UNJSPF situation of their own citizens; the issue of responsibility for monies that would have to be remitted to the Fund would seem to be a matter for resolution between the Russian Federation and the other States concerned.

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* Not reproduced in the present document.

In these circumstances, I wonder if your Government might consider concluding with the Fund a similar agreement to that with the Russian Federation covering former participants from your country. Of course, the question of the payments to be made to the Fund for the costs of the benefits to be established would be a matter for discussions with the Government of the Russian Federation.

I would be happy to discuss these questions with you or anyone your Government would wish to designate.

(Signed) Raymond GIERI
Secretary

B. Letter dated 3 July 1996 from the Permanent Representative of Ukraine to the United Nations, addressed to the Secretary of the United Nations Joint Staff Pension Board

I would like to inform you that the Government of Ukraine has considered your letter dated 10 June 1996 regarding the application of the Transfer Agreements between the Governments of the former USSR, Ukrainian SSR and Byelorussian SSR.

The Government of Ukraine adheres to its position that any possible solution of this problem should cover all former UNJSPF participants, wherever they reside. Since the finances involved had all been transferred to the Social Security Fund of the USSR, this is the only just and fair approach that can bring positive results.

Striving to protect the interests of quite a number of Ukrainian citizens and to reach the comprehensive solution of the problem of the resumption of the pension rights, the Government of Ukraine requests to postpone the consideration of a draft Agreement between the Government of the Russian Federation and UNJSPF.

In this connection, the Permanent Mission of Ukraine to the United Nations had issued the verbal note dated 3 July 1996, which is addressed to the members of the Pension Board.

The Permanent Mission of Ukraine to the United Nations requests that this document be circulated among the members of the Pension Board in order to consider it at its forty-seventh session, together with the progress report on activities related to resolving problems concerning the implementation of the Transfer Agreements between the Fund and the former USSR, Ukrainian SSR and Byelorussian SSR, and take in this regard a fair decision.

Your personal assistance in this matter, Mr. Gieri, will be highly appreciated.

(Signed) Anatoli M. ZLENKO
Ambassador
Permanent Representative
of Ukraine
to the United Nations

C. Note verbale dated 3 July 1996 from the Permanent Mission of Ukraine to the United Nations addressed to the members of the United Nations Joint Staff Pension Board

The Permanent Mission of Ukraine to the United Nations presents its compliments to the members of the United Nations Joint Staff Pension Fund and has the honour to draw their attention to the issue of the renewal of the pension rights of the former international civil servants of the United Nations system under the quota of the former Ukrainian SSR who are at present citizens of Ukraine and who have been affected by the application of the provisions of the Transfer Agreements between the United Nations Joint Staff Pension Fund and the Governments of the former USSR, Ukrainian SSR and Byelorussian SSR.

The Ukrainian SSR, as an integral part of the former USSR, was compelled to sign the Transfer Agreement with the UNJSPF of 16 October 1980. Since then, relevant government bodies of the USSR, under the legal cover of the mentioned Agreements, transferred money earned by the citizens of Ukraine to the former USSR Central Budget. None of those sums have ever been returned to the relevant government bodies of the Ukrainian SSR or, later, of Ukraine.

In view of the need to restore justice and rights of quite a number of its citizens, the Government of Ukraine welcomed resolution 49/224 of the General Assembly, providing for participation of all of the parties concerned in the process of settlement of the "pensions issue". We expected that the Russian Federation, which continues the membership of the former USSR in the United Nations, would take the responsibility for the all-round solution to this problem, especially for its financial implications. In this connection, we would like to draw your attention to the letter by H.E. Mr. Boris Yeltsin, the President of the Russian Federation, of 24 December 1991 addressed to the Secretary-General of the United Nations which stated that "The Russian Federation fully retains responsibilities for all the rights and duties of the USSR under the United Nations Charter, including financial". In our opinion, it has direct relevance to the responsibilities to resume the rights of the former United Nations system civil servants.

However, our contacts with the officials of the Government of the Russian Federation on the issue in question testify to the fact that the Russian Federation limits the issue of further application of the Transfer Agreements only to its own citizens. In fact, the Russian side gave no reply to any of our initiatives to jointly discuss it. Simultaneously, the Government of the Russian Federation has advanced in finalizing a new separate agreement with the UNJSPF with its scope limited to the present citizens of that country.

Therefore, interests of quite a number of Ukrainian citizens have been ignored again and a draft Agreement between the Government of the Russian Federation and the UNJSPF is likely to be presented for approval to the Pension Board and the General Assembly.

In view of the aforesaid, the Government of Ukraine, striving to reach an all-round, comprehensive solution to the problem of resumption of the pension rights of the former United Nations system civil servants, requests the members of the United Nations Joint Staff Pension Fund to postpone the consideration of the Agreement at the forthcoming session of the UNJSPF. At this stage, the Government of Ukraine will not be in a position to endorse the relevant part of the UNJSPF report to the General Assembly at its fifty-first session.

Therefore, we would highly appreciate your positive attitude and assistance in achieving a just and fair solution to the problem, which concerns full-fledged restoration of the pension rights of the citizens of Ukraine, former United Nations system civil servants.

[initialled and sealed]

ANNEX VIII

Administrative expenses

Table 1. Revised estimates for the biennium 1996-1997
(Thousands of US dollars)

Object of expenditure	Initial appropri-ations (1)	Decisions of policy-making organs (2)	Other changes (3)	Adjustments to standard costs (4)	Rates of exchange (5)	Inflation (6)	Total requirements (2+3+4+5+6) (7)	Revised estimates (1+7) (8)
A. Administrative costs								
Established posts	7 161.4	0.0	0.0	0.0	0.0	0.0	0.0	7 161.4
Common staff costs	2 776.3	0.0	0.0	0.0	0.0	0.0	0.0	2 776.3
Posts	9 937.7	0.0	0.0	0.0	0.0	0.0	0.0	9 937.7
Temporary assistance	405.8	0.0	0.0	0.0	0.0	0.0	0.0	405.8
Common staff costs	155.1	0.0	0.0	0.0	0.0	0.0	0.0	155.1
Overtime	180.0	0.0	0.0	0.0	0.0	0.0	0.0	180.0
Training	24.7	25.0	0.0	0.0	0.0	0.8	25.8	50.5
Other staff costs	765.6	25.0	0.0	0.0	0.0	0.8	25.8	791.4
Travel of staff	131.1	63.0	0.0	0.0	0.0	1.3	64.3	195.4
Committee of Actuaries	67.1	0.0	0.0	0.0	0.0	0.0	0.0	67.1
Travel	198.2	63.0	0.0	0.0	0.0	1.3	64.3	262.5
Actuarial consulting services	455.1	0.0	0.0	0.0	0.0	0.0	0.0	455.1
Consultants	196.2	0.0	0.0	0.0	0.0	0.0	0.0	196.2
EDP Contractual services	156.8	50.0	0.0	0.0	0.0	1.5	51.5	208.3
Contractual services	808.1	50.0	0.0	0.0	0.0	1.5	51.5	859.6
Services rendered by United Nations	40.0	0.0	0.0	0.0	0.0	0.0	0.0	40.0
Communications services	10.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0
Hospitality	12.2	0.0	0.0	0.0	0.0	0.0	0.0	12.2
Miscellaneous supplies and services	187.0	0.0	0.0	0.0	0.0	0.0	0.0	187.0
Rental and maintenance of equipment	1 142.7	25.0	0.0	0.0	0.0	0.8	25.8	1 168.5
General operating expenses	1 391.9	25.0	0.0	0.0	0.0	0.8	25.8	1 417.7
Supplies and materials	105.7	0.0	0.0	0.0	0.0	0.0	0.0	105.7
Equipment	295.4	300.0	0.0	0.0	0.0	9.0	309.0	604.4
Total administrative costs	13 502.6	463.0	0.0	0.0	0.0	13.2	476.4	13 979.0

Object of expenditure	Initial appropri-ations (1)	Decisions of policy-making organs (2)	Other changes (3)	Adjustments to standard costs (4)	Rates of exchange (5)	Inflation (6)	Total requirements (2+3+4+5+6) (7)	Revised estimates (1+7) (8)
B. Investment costs								
Established posts	2 565.0	407.9	0.0	0.0	0.0	9.7	417.6	2 982.6
Common staff costs	1 018.5	162.1	0.0	0.0	0.0	3.8	165.9	1 184.4
Posts	3 583.5	570.0	0.0	0.0	0.0	13.5	583.5	4 167.0
Temporary assistance	360.5	(323.5)	0.0	0.0	0.0	(7.7)	(331.2)	29.3
Common staff costs	143.1	(128.5)	0.0	0.0	0.0	(3.0)	(131.5)	11.6
Overtime	35.9	0.0	0.0	0.0	0.0	0.0	0.0	35.9
Training	40.9	0.0	0.0	0.0	0.0	0.0	0.0	40.9
Other staff costs	580.4	(452.0)	0.0	0.0	0.0	(10.7)	(462.7)	117.7
Travel of staff	230.4	0.0	0.0	0.0	0.0	0.0	0.0	230.4
Investments Committee	348.1	0.0	0.0	0.0	0.0	0.0	0.0	348.1
Travel	578.5	0.0	0.0	0.0	0.0	0.0	0.0	578.5
Advisory and custodial fees	19 410.0	590.0	0.0	0.0	0.0	0.0	590.0	20 000.0
Investment consultants	155.3	0.0	0.0	0.0	0.0	0.0	0.0	155.3
Contractual services	19 565.3	590.0	0.0	0.0	0.0	0.0	590.0	20 155.3
Communications services	204.8	0.0	0.0	0.0	0.0	0.0	0.0	204.8
Hospitality	5.1	0.0	0.0	0.0	0.0	0.0	0.0	5.1
Miscellaneous supplies and services	51.2	0.0	0.0	0.0	0.0	0.0	0.0	51.2
Bank charges	859.1	0.0	0.0	0.0	0.0	0.0	0.0	859.1
General operating expenses	1 120.2	0.0	0.0	0.0	0.0	0.0	0.0	1 120.2
Investment reference services	579.6	0.0	0.0	0.0	0.0	0.0	0.0	579.6
Data processing	250.9	0.0	0.0	0.0	0.0	0.0	0.0	250.9
Office furniture and fixtures	5.1	0.0	0.0	0.0	0.0	0.0	0.0	5.1
Equipment	256.0	0.0	0.0	0.0	0.0	0.0	0.0	256.0
Total investment costs	26 263.5	708.0	0.0	0.0	0.0	2.8	710.8	26 974.3

Object of expenditure	Initial appropri-ations (1)	Decisions of policy-making organs (2)	Other changes (3)	Adjustments to standard costs (4)	Rates of exchange (5)	Inflation (6)	Total requirements (2+3+4+5+6) (7)	Revised estimates (1+7) (8)
C. Audit costs								
External audit	32.6	0.0	0.0	0.0	0.0	0.0	0.0	32.6
Internal audit	204.8	0.0	0.0	0.0	0.0	0.0	0.0	204.8
Internal audit	204.8	0.0	0.0	0.0	0.0	0.0	0.0	204.8
Total audit costs	442.2	0.0	0.0	0.0	0.0	0.0	0.0	442.2

Table 2
Summary by object of expenditure
(Thousands of US dollars)

Object of expenditure	Initial appropri-ations (1)	Decisions of policy-making organs (2)	Other changes (3)	Adjustments to standard costs (4)	Rates of exchange (5)	Inflation (6)	Total requirements (2+3+4+5+6) (7)	Revised estimates (1+7) (8)
Administrative costs								
Posts	9 937.7	0.0	0.0	0.0	0.0	0.0	0.0	9 937.7
Other staff costs	765.6	25.0	0.0	0.0	0.0	0.8	25.8	791.4
Travel	198.2	63.0	0.0	0.0	0.0	1.3	64.3	262.5
Contractual services	808.1	50.0	0.0	0.0	0.0	1.5	51.5	859.6
General operating expenses	1 391.9	25.0	0.0	0.0	0.0	0.8	25.8	1 417.7
Supplies and materials	105.7	0.0	0.0	0.0	0.0	0.0	0.0	105.7
Equipment	295.4	300.0	0.0	0.0	0.0	9.0	309.0	604.4
Total	13 502.6	463.0	0.0	0.0	0.0	13.2	476.4	13 979.0
Investment costs								
Posts	3 583.5	570.0	0.0	0.0	0.0	13.5	583.5	4 167.0
Other staff costs	580.4	(452.0)	0.0	0.0	0.0	(10.7)	(462.7)	117.7
Travel	578.5	0.0	0.0	0.0	0.0	0.0	0.0	578.5
Contractual services	19 565.3	590.0	0.0	0.0	0.0	0.0	590.0	20 155.3
General operating expenses	1 120.2	0.0	0.0	0.0	0.0	0.0	0.0	1 120.2
Supplies and materials	579.6	0.0	0.0	0.0	0.0	0.0	0.0	579.6
Equipment	256.0	0.0	0.0	0.0	0.0	0.0	0.0	256.0
Total	26 263.5	708.0	0.0	0.0	0.0	2.8	710.8	26 974.3
Audit costs	442.2	0.0	0.0	0.0	0.0	0.0	0.0	442.2
Total	442.2	0.0	0.0	0.0	0.0	0.0	0.0	442.2
Total administrative, investment and audit costs	40 208.3	1 171.0	0.0	0.0	0.0	16.0	1 187.2	41 395.5

ANNEX IX

Member organizations of the Fund

The member organizations of the Fund are the United Nations and the following:

European and Mediterranean Plant Protection Organization (EPPO)

Food and Agriculture Organization of the United Nations (FAO)

Interim Commission for the International Trade Organization (ICITO)

International Atomic Energy Agency (IAEA)

International Centre for Genetic Engineering and Biotechnology (ICGEB)

International Centre for the Study of the Preservation and the Restoration of Cultural Property (ICCROM)

International Civil Aviation Organization (ICAO)

International Fund for Agricultural Development (IFAD)

International Labour Organization (ILO)

International Maritime Organization (IMO)

International Telecommunication Union (ITU)

United Nations Educational, Scientific and Cultural Organization (UNESCO)

United Nations Industrial Development Organization (UNIDO)

World Health Organization (WHO)

World Intellectual Property Organization (WIPO)

World Meteorological Organization (WMO)

World Tourism Organization (WTO)

ANNEX X

Attendance at the forty-seventh session of the Board

1. The following members and alternate members were accredited by the staff pension committees of the member organizations of the Fund, in accordance with the rules of procedure:

Representing	Members	Alternates
United Nations		
General Assembly	Mr. T. Inomata (Japan)	Mr. C. Dante Riva (Argentina)
General Assembly	Mr. V. Kuznetsov (Russian Federation)	Mr. V. Gokhale (India)*
General Assembly	Mrs. S. Shearouse (United States of America)	Mr. C. Stitt (United Kingdom of Great Britain and Northern Ireland)*
General Assembly	Mr. P. Owade (Kenya)	Mr. E. Zahid (Morocco)
Secretary-General		Mr. Y. Takasu (Japan)
Secretary-General		Mr. W. Sach (United Kingdom)
Secretary-General		Mr. D. Halliday (Ireland)
Secretary-General		Mr. M. Baquerot (France)
Secretary-General		Mr. A. Miller (Australia)
Participants	Ms. S. Johnston (United States) a/	Mr. Joseph Mathews (United States)*
Participants	Mr. J.-M. Jakobowicz (France)	Mr. Jose Carlos Ferreira (Brazil)*
Participants	Mr. C. Dahoui (Brazil)	
Participants	Mr. C. Hackett (Barbados)	
Food and Agriculture Organization of the United Nations		
Governing body	Mr. G. Redai (Ethiopia)	
Participants	Mr. A. Marcucci (Italy)	
World Health Organization		
Governing body	Dr. J. Lariviere (Canada)	Prof. B. Roos (Switzerland)
Executive head	Mr. D. Aitken (United Kingdom)	Mr. A. Asamoah (Ghana)
Participants	Mr. J. Campagnaro (Brazil)	Ms. V. Paterson (United Kingdom)
International Labour Organization		
Executive head	Mr. A. Busca (Italy)	
Participants	Mr. J.-V. Gruat (France)	Mr. P. Sayour (Switzerland)
United Nations Educational, Scientific and Cultural Organization		
Governing body	Mr. J. Patino (Panama)	
Executive head	Mr. A. Arfwedson (Sweden)	

United Nations Industrial Development Organization

Governing body	Mr. S. O. Fatunla (Nigeria)
Participants	Ms. J. Castelino (United Kingdom)

International Civil Aviation Organization

Executive head	Mr. D. J. Goossen (Netherlands)

International Atomic Energy Agency

Executive head	Mr. D. Goethel (Germany)

International Telecommunication Union

Governing body	Mr. E. Lieser (Germany)
Executive head	Mr. J.-P. Baré (France) b/

Interim Commission for the International Trade Organization/ General Agreement on Tariffs and Trade

Participants	Mr. N. Johnstone (Canada)

World Meteorological Organization

Participants	Mr. S. Mbele-Mbong (Cameroon)

World Intellectual Property Organization

Governing body	Mr. R. Roul (France)

International Fund for Agricultural Development

Participants	Mr. J. McGhie (United Kingdom)

2. The following attended the session of the Board as representatives, observers or secretaries of staff pension committees, in accordance with the rules of procedure:

Representatives	Organization	Representing
Mr. Y. Chotard c/	ILO	Governing body
Mr. A. McLurg d/	UNESCO	Participants
Ms. U. Peer	UNIDO	Executive head
Mr. D. S. Evans	ICAO	Governing body
Mr. R. G. Menzel	ICAO	Participants
Mr. R. Hamada	IAEA	Governing body
Mr. W. Scherzer	IAEA	Participants
Mr. J. Desbiolles	ITU	Participants
Mr. R. Jones	IMO	Executive head
Mr. D. Bertaud	IMO	Participants
Mr. J.-D. Rey	ICITO/GATT	Governing body
Mr. P. Rolian	ICITO/GATT	Executive head
Mr. J.-L. Perrin*	WIPO	Executive head
Mr. V. Yossifov	WIPO	Participants
Mr. P. Pegazzano	ICCROM	Executive head

Mr. I. Gunesh	WTO (Tourism)	Executive head
Mr. D. Ripandelli*	ICGEB	Executive head
Mr. A. Ali	FAFICS	Pensioners
Mr. G. Saddler	FAFICS	Pensioners
Mr. W. Zyss (Alt.)	FAFICS	Pensioners
Mr. O. Larghi (Alt.)	FAFICS	Pensioners

Observers	Organization
Ms. H. Puhlmann	Federation of International Civil Servants' Associations (FICSA)
Mr. A. Chowdhury	Coordinating Committee for Independent Staff Unions and Associations of the United Nations System (CCISUA)
Mr. J. Armistead	Inter-American Development Bank (IDB)
Mr. R. Eggleston	Consultative Committee on Administrative Questions (CCAQ)

Secretary	Staff Pension Committee
Mr. F. Fusco	FAO
Mrs. R. Wiedmer	WHO
Ms. C. McGarry	ILO
Mrs. C. Kerlouegan	UNESCO
Mr. P. Uhl	IAEA
Mr. M. Rolland	ITU
Mr. L. Gunnestedt	IMO
Mr. A. Nathoo	IMO
Mr. R. Luther	ICITO/GATT
Mr. E. Renlund	WMO
Mrs. T. Dayer	WIPO
Ms. J. Sisto	IFAD

3. The following attended all or part of the session of the Board:

International Civil Service Commission

Mr. M. Bel Hadj Amor, Chairman
Mr. P. Ranadive, Executive Secretary
Mr. M. Ordelt, Secretariat

Committee of Actuaries

Mr. L. J. Martin, Rapporteur

Consulting Actuary

Mr. R. Sharp

Medical Consultant

Dr. I. Laux

Investments Committee, advisors and staff

Mr. J. Guyot, Chairman
Mr. A. Abdullatif, Member
Ms. F. J. Bovich, Member

Mr. T. Ohta, Member
Mr. Y. Oltramare, Member
Mr. E. N. Omaboe, Member
Mr. S. Raczkowski, Member
Mr. A. P. Papamarkou, Ad Hoc Member
Mr. P. Stormonth Darling, Ad Hoc Member
Mr. L. Thomas, Vice-Chairman, Fiduciary Trust Company International (FTCI)
Mr. C. Elkus, Executive Vice-President, FTCI
Mr. A. Steinkamp, Senior Vice-President, FTCI
Mr. W. Yun, Senior Vice-President, FTCI
Mr. W. Keyser, Senior Vice-President, FTCI
Mr. D. Smart, Senior Vice-President, FTCI
Mr. J. E. Connor, Under-Secretary-General for Administration and Management and Representative of the Secretary-General for the investments of UNJSPF
Mr. H. L. Ouma, Chief, Investment Management Service
Mr. A. Gonzales, Senior Investment Officer and Secretary, Investments Committee
Mr. S. Jiang, Senior Investment Officer

4. Mr. R. Gieri and Mr. J. P. Dietz (Secretary and Deputy Secretary to the Board) served as Secretary and Deputy Secretary of the session, with the assistance of Mr. P. Dooley, Mr. G. Ferrari, Mr. K. Widdows and Ms. P. Ryder.

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* Did not attend session.

a/ Second Vice-Chairman.

b/ First Vice-Chairman.

c/ Chairman.

d/ Rapporteur.

ANNEX XI

Membership of the Standing Committee

Representing	Members	Alternates
United Nations (Group I)		
General Assembly	Mr. T. Inomata	Mr. V. Kuznetsov
General Assembly	Ms. S. Shearouse	Mr. P. Owade
Secretary-General	Mr. D. Halliday	Mr. M. Baquerot
Secretary-General	Mr. A. Miller	Mr. W. Sach
Participants	Ms. S. Johnston	Mr. C. Dahoui
Participants	Mr. J.-M. Jacobowicz	Mr. C. Hackett
Specialized agencies (Group II)		
Governing body	Dr. J. Lariviere (WHO)	Prof. B. Roos (WHO)
Executive head	Mr. D. Aitken (WHO)	To be designated (FAO)
Participants	Mr. A. Marcucci (FAO)	Mr. C. Cherubini (FAO)
Specialized agencies (Group III)		
Executive head	Mr. A. Busca (ILO)	Ms. H. Schebesta (ILO)
Participants	Mr. A. McLurg (UNESCO)	To be designated (UNESCO)
Specialized agencies (Group IV)		
Governing body	Mr. W. Lieser (ITU)	Mr. O. Fatunla (UNIDO)
Participants	Ms. J. Castelino (UNIDO)	Mr. W. Scherzer (IAEA)
Specialized agencies (Group V)		
Governing body	Mr. J. Robles-Aguilar (IFAD)	Mr. R. Roul (WIPO)
Executive head	Mr. R. Jones (IMO)	Mr. P. Rolian (ICITO/GATT)

ANNEX XII

Membership of the Committee of Actuaries

The membership of the Committee is as follows:

Mr. A. O. Ogunshola (Nigeria)	Region I (African States)
Mr. K. Takeuchi (Japan)	Region II (Asian States)
Mr. E. M. Chetyrkin (Russian Federation)	Region III (Eastern European States)
Mr. H. Pérez Montas (Dominican Republic)	Region IV (Latin America)
Mr. L. J. Martin (United Kingdom)	Region V (Western European and other States)

In addition, Mr. R. J. Myers (United States) has been appointed member emeritus.

ANNEX XIII

Membership of the Investments Committee

The membership of the Investments Committee is as follows:

Mr. A. Abdullatif (Saudi Arabia)

Ms. F. Bovich (United States)

Mr. J. Guyot (France)

Mr. Takeshi Ohta (Japan)

Mr. Y. Oltramare (Switzerland)

Mr. E. N. Omaboe (Ghana)

Mr. S. Raczkowski (Poland)

Mr. J. Reimnitz (Germany)

Ad hoc members

Mr. A. Papamarkou (United States)

Mr. P. Stormonth Darling (United Kingdom)

Mr. F. Chico Pardo (Mexico)

Member Emeritus

Mr. B. K. Nehru (India)

ANNEX XIV

Recommendations to the General Assembly for amendment of the Regulations of the United Nations Joint Staff Pension Fund*

Existing text a/	Proposed text	Comments
Article 28 (d) (i) (B):	Article 28 (d) (i) (B):	
The maximum benefit payable under the same provisions of (b) or (c) above to a participant at the level D-2 (top step for the preceding five years) with 35 years of contributory service, separating on the same date as the participant.	The maximum benefit payable under the same provisions of (b) or (c) above to a participant at the level D-2 (top step for the preceding five years) [with 35 years of contributory service], separating on the same date as the participant.	
Article 28 (q) (i) (B):	Article 28 (q) (i) (B):	Consequential amendments following the increase in the maximum number of years of creditable contributory service which entered into effect on 1 July 1995.
The actuarial equivalent of one third of the benefit that would be payable to a participant retiring at the normal retirement age, on the same date as the participant, after 35 years of contributory service, with a final average remuneration equal to the pensionable remuneration on that date for the top step of level P-5 on the scale of pensionable remuneration appended to article 54.	The actuarial equivalent of one third of the maximum benefit that would be payable to a participant retiring at the normal retirement age, on the same date as the participant, [after 35 years of contributory service,] with a final average remuneration equal to the pensionable remuneration on that date for the top step of level P-5 on the scale of pensionable remuneration appended to article 54.	

* Proposed additions are marked by underlining and proposed deletions by square brackets.

a/ JSPB/G.4/Rev.14.

ANNEX XV

Recommendations to the General Assembly for changes in the pension adjustment system

Existing text a/	Proposed text	Comments
26.(a) For countries where there is a high rate of inflation, but the exchange rate remains fixed, the record of the local currency amount may be discontinued and only the dollar entitlement paid.	Replace 26 (a) by the following new 26 (a) and (b): 26.(a) For countries where the application of the local-currency track would lead to aberrant results, with wide fluctuations depending on the precise commencement date of the underlying benefit entitlement, establishment of a local currency base amount in accordance with section C may be discontinued by the Secretary of the Pension Board. In such cases, the Secretary shall duly inform the Board or the Standing Committee of this action, as soon as feasible; (b) Aberrant results in subparagraph (a) above may be due, inter alia, to: (i) Very high inflation rate and an exchange rate which either remained fixed or whose fluctuation was very limited in relation to the level of the inflation rate; (ii) The 36-month average of exchange rates covered different currency units or included a currency unit that was no longer applicable; (iii) Substantial depreciation of the local currency, combined with non-existent, inconsistent or outdated information on the movement of the country's consumer price index; Reletter current (b) as (c).	To provide greater specificity in setting out criteria under which local currency track may be discontinued.

Existing text a/	Proposed text	Comments
-	Section Q Special measure for determination of the local currency base amount in certain countries with a new currency unit 38.(a) For countries where a new currency unit was introduced on or after 1 January 1990 which represented, at the time of its introduction, an increase in the value of the local currency base amount under section C, paragraph 5 (b) (iii), above, shall be determined in the following manner: (i) For beneficiaries separating before or during the month of introduction of the new currency unit: by applying to the dollar base amount, as adjusted under section H above to the date of introduction of the new local currency unit, the United Nations operational exchange rate in effect as of such date; (ii) For beneficiaries separating after the end of the month of introduction of the new currency unit: by applying to the dollar base amount the average of the United Nations operational exchange rates for the new local currency unit over the period from the effective month of introduction of the new currency unit to the month of separation, up to a maximum of 36 months; (b) This special measure shall apply to all beneficiaries who have provided, or will provide in future, proof of residence in a country which meets the criteria in subparagraph (a) above; (c) (i) The local currency base amount determined in accordance with subparagraph (a) (i) above shall be adjusted by the consumer price index movement, in accordance with section H above, as from the date of introduction of the new currency unit;	New section of the pension adjustment system, to establish measures to determine the initial local currency pension in countries where new local currency unit was introduced, resulting in significant changes in the relationship between the local currency and the United States dollar, following long periods of steep depreciation of the local currency and high inflation rates.

Existing text a/	Proposed text	Comments
	(ii) The local currency base amount determined in accordance with subparagraph (a) (ii) above shall be adjusted by the consumer price index movement, in accordance with section H above; (d) The local currency amount calculated under this special measure will be paid only with effect from the first day of the quarter following submission of proof of residence, or in cases where proof of residence had been submitted earlier, as from the first day of the quarter following the date of introduction of the new local currency unit, with retroactive effect only as from 1 January 1996; (e) Should the new local currency unit depreciate against the United States dollar by 50 per cent or more from its value on the date of introduction, beneficiaries covered by the special measure may exercise an option, within two years as from the date of implementation of the special measure, 1 January 1997, to withdraw their proof of residence and to have their pension benefits paid thereafter solely on the United States dollar track. Such reversion to the dollar track alone would be effective as from the first quarter following receipt by the Fund secretariat of the beneficiary's withdrawal of proof of residence.	

a/ JSPB/G.12/Rev.2.

ANNEX XVI

Draft resolution proposed for adoption by the General Assembly

[The draft resolution covers those matters in the report of the United Nations Joint Staff Pension Board which require action by the General Assembly, as well as other matters in the report which the Assembly may wish to address in its resolution. The items related to the reviews of the pensionable remuneration of staff in the Professional and higher categories and staff in the General Service and related categories, and to the review of the special index for pensioners, are also covered in the report of the International Civil Service Commission to the Assembly. The paragraphs in the draft resolution on these items will be formulated on the basis of the Assembly's consideration of the relevant portions of the respective reports of the Board and ICSC.]

The General Assembly,

Recalling its resolutions 45/242 of 21 December 1990, 46/192 of 20 December 1991, 47/203 of 22 December 1992, 48/224 and 48/225 of 23 December 1993 and 49/224 of 23 December 1994, section VII of resolution 50/216 of 23 December 1995, and decision 50/485 of 7 June 1996,

Having considered the report of the United Nations Joint Staff Pension Board for 1996 to the General Assembly and to the member organizations of the United Nations Joint Staff Pension Fund, a/ chapter III of the report of the International Civil Service Commission for the year 1996, b/ the report of the Secretary-General on the investments of the Fund, c/ and the related report of the Advisory Committee on Administrative and Budgetary Questions, d/

I

ACTUARIAL MATTERS

Recalling section II of its resolution 47/203, section II of its resolution 48/225 and section I of its resolution 49/224,

Having considered the results of the valuation of the United Nations Joint Staff Pension Fund as at 31 December 1995 and the observations thereon of the Consulting Actuary of the Fund, the Committee of Actuaries and the Board,

1. Takes note of the decrease in the actuarial imbalance from 1.49 to 1.46 per cent of pensionable remuneration, reflected in the valuation of the Fund as at 31 December 1995, and in particular of the opinions provided by the Consulting Actuary and the Committee of Actuaries, as reproduced in annexes IV and V, respectively, to the report of the Board, a/ that there was no

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a/ Official Records of the General Assembly, Fifty-first Session, Supplement No. 9 (A/51/9).

b/ Ibid., Supplement No. 30 (A/51/30).

c/ A/C.5/51/3.

d/ A/51/___.

requirement, as at 31 December 1995, for deficiency payments under article 26 of the Regulations of the Fund and that the current contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1997, and in the light of future developments;

2. Takes note also of the reviews by the Standing Committee of the Pension Board in 1995 and the Board in 1996 of the interest rate used to determine lump-sum commutations, and of the decision by the Board, under article 11 of the Regulations of the Fund, to retain the current 6.5 per cent interest rate, which would be reviewed again by the Board in 1998;

3. Takes note further of the review by the Board of further amendments required to article 28 of the Regulations of the Fund as a consequence of the increase in the maximum number of years of creditable contributory service that had been adopted by the General Assembly in resolution 49/224 and had entered into effect on 1 July 1995;

4. Approves, with retroactive effect as from 1 July 1996, amendments to paragraphs (d) and (g) of article 28 of the Regulations of the Fund, as set out in annex XIV to the report of the Board; a/

II

PENSIONABLE REMUNERATION OF STAFF IN THE PROFESSIONAL AND HIGHER CATEGORIES

[Paragraphs to be formulated, including the relevant amendments to article 54 (b) of the Regulations of the Fund, on the basis of the General Assembly's consideration of the relevant portions of the respective reports of the United Nations Joint Staff Pension Board and the International Civil Service Commission.]

III

PENSIONABLE REMUNERATION OF STAFF IN THE GENERAL SERVICE AND RELATED CATEGORIES

[Paragraphs to be formulated, including the relevant amendments to article 54 (a) of the Regulations of the Fund, on the basis of the General Assembly's consideration of the relevant portions of the respective reports of the United Nations Joint Staff Pension Board and the International Civil Service Commission.]

IV

PENSION ADJUSTMENT SYSTEM

Recalling section IV of its resolution 46/192, section V of its resolution 47/203, section I of its resolution 48/225 and section III of its resolution 49/224,

1. Takes note of the reviews carried out by the United Nations Joint Staff Pension Board, described in section VII of its report, a/ on various aspects of the pension adjustment system;

2. Takes note also of the results of the monitoring of the cost/savings of recent modifications of the two-track feature of the pension adjustment system, and of the intention of the Board to continue to monitor those costs/savings every two years, on the occasion of the actuarial valuations of the Fund;

3. Approves changes in the pension adjustment system, as set out in annex XV to the report of the Board, a/ (a) to include, with retroactive effect from 1 January 1996, a special measure for determining local currency track pension amounts for beneficiaries residing in countries where a new currency unit has been introduced which significantly strengthens the relationship of the local currency to the United States dollar, subject to the eligibility criteria set out in paragraph 208 of the report of the Board, and (b) to provide greater specificity in the criteria set out in paragraph 26 of the pension adjustment system for discontinuing the local currency track pension amounts when they lead to aberrant results in a particular country;

[Additional paragraph(s) to be included on the review of the special index for pensioners, on the basis of the General Assembly's consideration of the relevant portions of the respective reports of the Board and the Commission.]

V

PROPOSED AGREEMENT BETWEEN THE RUSSIAN FEDERATION AND THE UNITED NATIONS JOINT STAFF PENSION BOARD

Recalling its resolutions 48/225 and 49/224 concerning the situation of participants in the United Nations Joint Staff Pension Fund who transferred their pension entitlements to the former Union of Soviet Socialist Republics, Ukrainian Soviet Socialist Republic and Byelorussian Soviet Socialist Republic, under the relevant Transfer Agreements,

1. Concurs with the proposed Agreement between the Government of the Russian Federation and the United Nations Joint Staff Pension Board, pursuant to article 13 of the Fund's Regulations, as set out in annex VI to the report of the Board; a/

2. Notes that the implementation of the proposed Agreement would represent an important first step in resolving the problems that have arisen with respect to the application of the Transfer Agreements with the former Union of Soviet Socialist Republics, Ukrainian Soviet Socialist Republic and Byelorussian Soviet Socialist Republic, and looks forward to completion of the further steps envisaged in the proposed Agreement;

3. Requests that Member States whose nationals transferred their pension entitlements to the former USSR Social Security Fund under the Transfer Agreements enter into negotiations with the Fund, and any other party concerned, in order to protect the interests of the individual transferees in a manner similar to that set out in the proposed Agreement with the Russian Federation;

VI

FINANCIAL STATEMENTS OF THE FUND AND
REPORT OF THE BOARD OF AUDITORS

1. Notes with satisfaction that the report of the Board of Auditors on the accounts of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 1995 had revealed no material weakness or errors in the Fund's procedures and operational systems, nor any evidence of fraud;

2. Notes also the measures taken and under consideration by the secretariat of the United Nations Joint Staff Pension Fund to improve the procedures for verifying continuing eligibility for benefits from the Fund;

3. Notes further the arrangements made for internal audits of the Fund, to be carried out by the Office of Internal Oversight Services of the United Nations Secretariat;

4. Requests the Secretary-General to continue to make available to the Fund the United Nations machinery for contracting and procurement, as recommended by the Board in paragraph 111 of its report; a/

VII

ADMISSION TO MEMBERSHIP OF THE INTERNATIONAL TRIBUNAL
FOR THE LAW OF THE SEA

Decides to approve conditionally the admission to membership in the United Nations Joint Staff Pension Fund of the International Tribunal for the Law of the Sea, as from a date yet to be established, subject to confirmation by the secretariats of the United Nations Joint Staff Pension Board and the International Civil Service Commission that the Staff Regulations and Rules adopted by the Tribunal adhere to the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies, as required under article 3 of the Fund's Regulations;

VIII

ADMINISTRATIVE EXPENSES

Recalling section VII of its resolution 50/216 and its request, made on the recommendation of the Advisory Committee on Administrative and Budgetary Questions, that the United Nations Joint Staff Pension Board review the additional staffing proposals for the Investment Management Service that had been presented to the General Assembly at its forty-ninth session in the budget proposals for the biennium 1996-1997,

Having considered the observations of the Board on the staffing of the Investment Management Service and on other requests for additional resources, as set out in paragraphs 313 to 328 of its report, a/

Approves the additional staffing and other resources recommended by the Board, in paragraphs 330 and 332 a/ of its report, involving expenses amounting to 1,187,200 United States dollars net for the biennium 1996-1997, chargeable directly to the United Nations Joint Staff Pension Fund, for the administration of the Fund;

IX

OTHER MATTERS

Recalling its decision 50/485 of 7 June 1989 concerning the provisions of the Regulations of the United Nations Joint Staff Pension Fund governing the suspension of benefits in cases of re-employment of retirees in a member organization of the Fund, and in particular its invitation to the United Nations Joint Staff Pension Board to examine the possibility of suspending benefits for re-employments for periods of less than six months,

1. Takes note of the review carried out by the Board, as set out in paragraphs 252 to 261 of its report, a/ and of its decision to defer consideration of a possible amendment of article 40 (a) of the Regulations of the Fund, pending action taken by the General Assembly at its fifty-first session on the report it had requested from the Secretary-General on the question of employment of retirees by the United Nations;

[Additional preambular and/or operative paragraphs may be formulated in the light of the action taken on the indicated report of the Secretary-General.]

2. Takes note also of the review by the Board of the entitlement to survivors' benefits for spouses and former spouses, and of its intention to have this matter examined further by the Standing Committee in 1997 and the Board in 1998;

3. Takes note further of the other matters dealt with in section IX of the report of the Board; a/

X

INVESTMENTS OF THE FUND

1. Takes note of the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund, on the review of the new custodial arrangements for the Fund's assets implemented in 1994 and on the review of the arrangements for the provision of institutional advisory services, c/ as well as the observations of the United Nations Joint Staff Pension Board thereon in its report; a/

2. Takes note also of the observations of the Board of Auditors on the outstanding tax refunds due to the Fund from some Member States in respect of direct taxes imposed on the Fund's investment income, as set out in paragraphs 41 to 43 of its report and reproduced in annex III to the report of the United Nations Joint Staff Pension Board, a/ and the comments of the Pension Board thereon;

3. Takes note further with satisfaction of the increase in the number of Member States which have granted tax exemption for the investments of the Fund;

4. Reiterates its request to those Member States which do not grant such exemptions to make all possible efforts to do so as soon as possible;

5. Urges those Member States which have outstanding balances on foreign tax accounts receivable, as shown in schedule 6 of the financial statements contained in annex II to the report of the Board, a/ to make all possible efforts to reimburse the amounts due as quickly as possible.